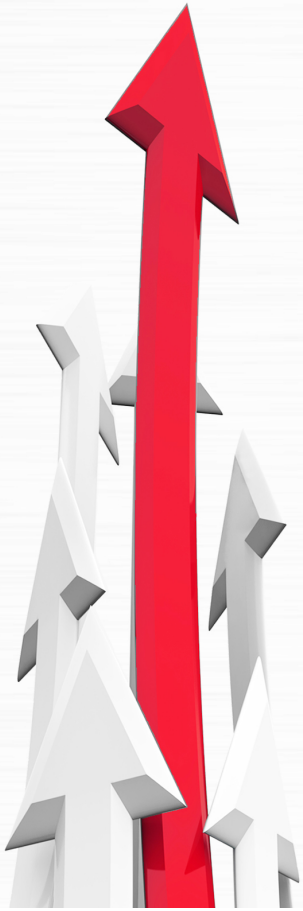
Learn how to win more customers and secure higher prices.

GET YOUR PRICE!



Value-Based Strategy *for* Capital Equipment Companies

Michael Chase

Industry leaders share their thoughts on *Get Your Price!*

"I know from personal experience that the insights in *Get Your Price!* will help capital equipment business leaders develop superior value propositions and get paid for them. This is a clear, precise, well-written guide that will put you on the path to a winning strategy."

John A. Roush, CEO, GSI Group

"Over the last four years, we have worked with Mike Chase to implement a value-based strategy. In every single one of those years, our margins improved. To make sure you're not leaving any money on the table, read this book!"

Robert Krueger, VP and GM, Semiconductor Business Unit, FEI Company

"A refreshing change from the usual focus on just the value-selling process. *Get Your Price!* shows you how to align your entire organization to produce superior customer value and secure value-based prices. For capital equipment company leaders looking to grow their companies, this is an incredibly useful book."

Robert Winskowicz, CEO, Sterilis

"Mike Chase has a real knack for tackling important marketing topics and breaking them down into actionable steps. We all discuss and debate how to communicate the value our products offer and maximize price. *Get Your Price!* gives us a clear way to organize the discussion and measure the results."

David C. Gray, PhD, Chief Strategy and New Business Officer,
Brooks Automation

"This is not some theoretical text. *Get Your Price!* is a well-organized, easy-to-read, practical how-to guide packed with strategies that you can use right away to grow your business."

Michael Ioannou, President and CEO, Akrion Systems

"*Get Your Price!* is a must-read for capital equipment manufacturers looking to grow, maximize profit, and deliver unique value to their customers. This book is loaded with valuable insight, written by someone with intimate knowledge of the capital equipment industry."

Michael J. Chalsen, President, MRSI Systems

"I have worked closely with Mike at three different equipment companies. In each case, he transformed how we thought about creating customer value and helped us get paid for it. Mike shares his battle-tested approach in this exceptionally useful book."

Edward Samaha, GM, Modular Power Solutions

"Capital equipment suppliers generate tremendous value for their customers. Yet it's always a struggle to secure prices that reflect that value. Mike tackles this pressing issue head-on in this book. *Get Your Price!* provides a well-thought-out, straightforward strategy to achieve the value-based pricing you deserve."

Rezwan Lateef, VP and GM Lithography Products, Ultratech

"Michael Chase has written a clear and practical guide to customer value as the strategic heart of product management success. The concrete capital equipment examples are an important ingredient that helps to make this book so clear. But it is also a worthwhile read for companies beyond those that produce capital equipment.

"*Get Your Price!* provides a compelling roadmap for anyone seeking to take their organization to the next level by implementing a value-based strategy. This is a must-read for the value-management, value-pricing, and value-selling communities."

Peyton Marshall, CEO, LeveragePoint Innovations

"*Get Your Price!* provides a well-thought-out strategy to help capital equipment manufacturers value their products and prioritize what is most important to the customer. Mike's book covers all the critical topics you need to understand to produce highly competitive and profitable products. A must-read for any capital equipment professional, whether you're early in your career or a seasoned executive."

John Patrin, Global Marketing Director, Dow Water & Process Solutions

"A value-based strategy will fundamentally change the way you look at your customers' unmet needs, define your win strategy, develop products, and sell them. It's my experience that the approaches in *Get Your Price!* will lead to a more confident sales force that can win more orders at higher prices."

Sudhakar Raman, VP Global Marketing, Veeco Instruments

GET YOUR PRICE!

Value-Based Strategy for

Capital Equipment Companies

By Michael Chase

ISBN XXXXXXXXXX

CONTENTS

Acknowledgements

Thank you to all my colleagues, mentors, and clients. This book would not be possible if I weren't able to draw on the lessons that you have taught me and the experiences that we have shared.

A special thanks also goes to my niece, Kylie Hern. I'm truly touched by the interest you showed in my previous book, *Equipped to Win*. Thank you for that and for helping edit this book's introduction.

Above all, I want to thank my wife, Erin. I have no words that can adequately express what your support and encouragement have meant to me.

Introduction

If you're a capital equipment supplier, and you want more customers at higher prices, this book is for you.

As an equipment supplier, you're faced with constantly changing technologies, long and costly product development, aggressive competitors, and demanding customers with sophisticated buying processes.

You overcome all these challenges to serve your customers. For that, your customers are very grateful. After all, they derive significant financial value from the equipment they buy from you.

As an equipment supplier, you deserve to be compensated for that value. That requires a value-based strategy.

Your journey to implement a value-based strategy will have a broad impact on your approach to product strategy, management, and

marketing. Everything you do to define, create, and market products will need to be oriented to create unique customer value and make sure that you get paid for that effort.

This book shows you how.

You have in your hands a step-by-step guide that shows you exactly how to implement a value-based strategy in a capital equipment company. Inside, you will find straightforward strategies, tactics, and tools for achieving the commercial success that a value-based strategy promises.

Get Your Price! shows you how to put your company on the road to sustained competitive advantage, profitability, and growth. But we both know that just reading a book won't make it happen. It's my sincere hope that you are inspired to take action by what you learn here.

I look forward to hearing about your success.

Enjoy!

For additional value-based strategy implementation resources, or to contact me, please visit www.tekcess.com.

Part I: Value-Based Strategy Demystified

1. Value-Based Strategy Defined

Every business has pressing issues, but which ones are actually strategic? Are falling sales a strategic issue? What about rising material costs? What about a new competitor?

Knowing how to distinguish between strategic and tactical issues is critical to any strategy-development effort. Otherwise, tactics could overrun your effort, and you may never produce anything that is actually strategic.

Perceptions of exactly what constitutes strategy can vary greatly, even among a single management team. A single question about strategy can produce multiple perspectives that must be resolved before attempting to make any meaningful strategy decisions. The following story helps illustrate this point.

"In this year's strategic plan, I want to reexamine our sales compensation structure and understand why we spend so much on system demonstrations. I also want a new deal-approval process in place."

That's the answer I got from a capital equipment company senior manager in response to the question, "What are the most important things to address in this year's strategy-development effort?"

Continuing my senior-management interviews, I met with the senior VP of marketing and asked the same question.

His response: "That's easy. In two years, our customers will be manufacturing their next-generation device. This will make our current system obsolete. We will have a hole in our portfolio if we don't do something."

The marketing executive had a very different perspective on strategy development. The first executive looked internally to find the most important issues. However, the marketing VP looked externally for emerging threats to the business.

A third executive answered the question this way:

"We're not going to do anything strategic this year. We need to work on our current business before we think about another acquisition."

With this third executive came yet a third perspective. In his view, an issue wasn't strategic unless it involved an acquisition, implying that any issues in the existing business must be tactical.

Why are there three completely different perspectives on the same question? It's simple: the management team was asked to identify strategic issues before they had a common definition of the word *strategy*.

Strategy Defined

An effective strategy definition should clearly distinguish between strategy and tactics. To that end, consider the following:

Strategy is the big decisions that senior managers make to respond to or anticipate changes in the market or the competitive environment. Everything else is tactics.

Notice that this definition lays out a much clearer concept of strategy than the typical "strategy is long term, and tactics are short term" paradigm. It sets strategy apart from tactics on two key dimensions:

1. Decisions vs. actions
2. External vs. internal perspective

A definition like this fosters a strategic mind-set. When used as a filter, it will help keep tactical, internal issues from distracting your strategy-development efforts.

What Makes a Strategy Value Based?

Put your management team in a room. Hand them each a small piece of paper. Then, ask them to write down what they want out of a value-based strategy.

What do you think you'll get?

Most likely, you'll get a chorus of something like, "More customers at higher prices." It's no surprise that everyone seems to know exactly what he or she wants from a value-based strategy.

Now imagine that same exercise. Only this time, you ask them, "What is a value-based strategy?"

Now what do you think you'll get?

This time, the harmony is not so obvious. On those sheets of paper, you'll probably get a cacophony of ideas like those shown in Table 1.

Table 1: Ideas associated with value-based strategy

Value	Customer
Cost of Ownership	Products
Features	Performance
Competition	Price
Cost	Selling
Profit	Economics
Difficult	Strategy
Market	Negotiate

What may sound like noise is actually a great start. All these are part of a value-based strategy. But what you're looking for is a clear, holistic definition, one that you can use to guide the organization's value-based strategy decision making and implementation.

If you were to ask the group to summarize these ideas into key themes, you'd be looking at something like these four:

1. Economic value for the customer
2. More value than the competition
3. Fair, profitable compensation
4. Deliberate

Now you're getting somewhere. These themes tell you a lot about what a value-based strategy entails. Let's take a closer look at each and then try to tie it all together.

Economic Value for the Customer

This value-strategy theme tells you that the customer defines value. Therefore, you'll need to define that customer very clearly. Market segmentation will not be an off-the-cuff decision.

Also, capital equipment buyers buy only to make a profit. This is the lens through which they define value. If you're intent on pursuing a value-based strategy, you'll need to understand how your equipment affects your customers' economics.

More Value than the Competition

Your customers measure your value relative to the alternatives in the market. A value-based strategy seeks to create more value than those alternatives.

This has implications for the equipment supplier. Your competitive intelligence efforts will need to go way beyond reading competitors' websites and reviewing stale win–loss reports. You must develop an understanding of your competitors' ability to create value that rivals your understanding of your own.

Fair, Profitable Compensation

As an equipment supplier, you're entitled to a portion of the value that you provide your customers. Your fair compensation is defined as the maximum that the market will bear in the context of your competitive environment.

A value-based strategy is interesting only if it enables you to make more profit. Therefore, your products must produce acceptable profitability when they are sold for fair compensation.

Deliberate

Consistently achieving the returns promised by a value-based strategy isn't an ad hoc endeavor. It's a deliberate decision to make defining, creating, and marketing customer value a core competency. The decision to adopt a value-based strategy is going affect the way you

- Define and select customers,
- Define and develop products, and
- Market, price, and sell those products.

There's nothing casual about it.

Bringing It All Together

Put these four themes together, and you get your clear, holistic, value-based strategy definition.

A value-based strategy is a business strategy that deliberately creates more economic value for the target customer than alternative offerings and then extracts fair, profitable compensation for that value.

It's only twenty-nine words. But it contains everything you need to guide your quest for more customers at higher prices.

2. Why You Can't Sell Value

You're the go-to guy for specification responses, the most wanted for customer meetings, and you're one-stop shopping for product-development status. There's nothing about the product that you don't know. Specifications, configurations, history, installed base, cost, pricing, roadmap, and production schedule are all known by you.

The marketing materials you've provided the sales force are exquisite. Every key feature and benefit is artfully presented with plenty of data to back it up. You listen closely to customers when they tell you what features are most important to them, and you make sure that those features find a home on your product roadmaps.

You've taken the title of product manager to heart and have committed yourself to becoming the ultimate product expert. You've used that talent to equip the sales force and drive product strategy.

But there's a big problem. Your salespeople are getting killed during price negotiations. Your CEO is all over you for poor margins and keeps harping, "You're not selling value!"

You're frustrated. You know what they want, but you're not sure where to start.

Roadmap to Selling Value

First, you need to understand the road you must take to arrive at the wonderful place where value can be sold. It's a four-step process. See Figure 1.

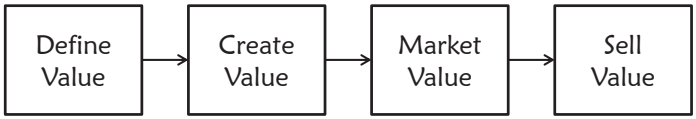


Figure 1: Roadmap to selling value

Defining value is pretty straightforward in the capital equipment world. Here, your customers buy from you only because they believe that by buying your product they will earn more money than if they didn't buy from you. The degree to which your products make more money for your customers is your value. In our context, value is a financial expression.

Creating value is turning that understanding into a product that will produce more financial return for your customers than will your competitors' products. Once you have that product, the next step is to market it. You need to create demand based on the product's unique value at a price that compensates you for the extra profit your customer will earn by owning it.

Once you have the first three steps done, selling value should be easy. You have the product. You have a cold-cash value proposition to defend pricing. All that remains is to hold your ground when the negotiations begin.

It seems simple enough. So what's the problem?

Well, as with solving almost any problem, you need to start by diagnosing your current condition. Once you have a handle on that, you can chart your course for improvement.

Rate Your Value-Selling Capability

You can quickly assess your organization's value-selling capability by assessing your sales-and-marketing approach against these three attributes:

1. Perspective
2. Dealing with the competition
3. Pricing

To do this, read the descriptions under each of these attributes below. Then, select the one that best describes your organization's sales-and-marketing condition. Your score for that attribute is the number associated with the description you selected.

Perspective

1. Your marketing materials speak in the language of your product and company. Very little of your content concentrates on the customer's problem or the commercial outcome the customer obtains by owning your product. Your materials are often written in the first person. The words *we* and *our* show up more than *you* and *your*.
2. Your marketing materials demonstrate a real understanding of the customer's problem and how your product will solve it. Sales-and-marketing materials are less about your product's capabilities and more about how they improve your customer's economic condition.

Dealing with the Competition

1. Your marketing materials explain many of your product's key features and benefits. But they do not contain direct comparisons to the competition.
2. Your marketing materials focus on the key advantages that you have over the competition. These materials contain direct, head-to-head comparisons between you and the competition that point out these advantages.
3. Your marketing materials make direct, head-to-head advantage comparisons between you and your competition. You make a direct connection between those advantages and the economic value they produce for the customer.

Pricing

1. No direct connection between product performance and price is apparent.
2. Pricing is related to your relative performance advantage or disadvantage vs. the competition.
3. Pricing is directly related to the economic value your product produces for the customer.

How to Use Your Value-Selling Rating

Tally up your organization's score for the three attributes. Then, correlate it to the value-selling capability assessment below:

≤4 = Level 1: Features for a price

5–7 = Level 2: Advantage for a price

8 = Level 3: Value for a price

At level 1, there's no direct connection between your product's capability and price. When selling at the "Features for a Price" level, the probability of achieving value-based pricing is very low.

Selling and marketing at level 2 improves your potential for achieving value-based pricing. Here you are at least taking into account your competitive position. However, you still cannot be sure that your prices reflect your product's value because you are not relating your price to the economic value that you provide your customer.

That brings us to level 3, the highest value-selling capability level. At this level, you are selling a value advantage for a price. Your price is directly connected to the superior economic outcome your customer realizes from buying your product.

Your value-selling capability is directly related to your understanding of your competitor's capability and your customer's business. See Figure 2 below for the relationship between your value-selling capability level, expertise domains, and the outlook for achieving value pricing.

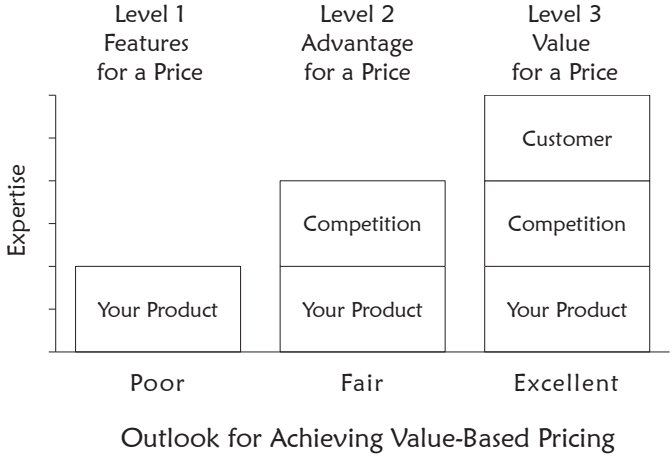


Figure 2: Outlook for achieving value-based pricing

If you scored at level 3, you must clear one more hurdle before you achieve a true "Value for a Price" rating.

Do you actually achieve value-based pricing?

If your answer is yes, congratulations. If your answer is no or "I don't know," your level 3 rating is a false indicator. Even though your market messaging follows a value-based framework, you have a defect somewhere in your value proposition. It's likely one or more of the following:

1. You haven't correctly defined the customer or customer value.
2. Your assessment of where you stand vs. the competition is flawed.
3. You haven't developed the capability to substantiate value during the sales process.

The Secret to Selling Value

The secret to successfully executing the four steps on the value-selling roadmap is having the same level of expertise about your customers and competitors as you do about your own company and products.

Understanding exactly how your product produces profit for your customer requires intimate knowledge of your customer's business. Making sure that your product truly produces more value than the competition's product means knowing your competition's product as thoroughly as you know the product rolling off your own shipping dock. Without this intimate knowledge of your customers and competitors, you risk creating products that don't produce value for your customers and taking market positions that get blown out of the water the moment the competition attacks.

The product manager who is the unquestioned guru on his own products but has only superficial understanding of his customers and competitors is not ready to help your company sell value.

For a company to succeed at value selling, its product managers have to change their emphasis. Their attention needs to turn outward. They need to think of themselves as "customer" and "competitor" managers, not just product managers.

It's not easy. Your product information is usually at arm's reach—not so for the same level of detail about your customers and competitors. It's going to take some deliberate detective work and discipline to acquire the specific details that you need. In part II of this book, you'll learn how to get closer to your customers and competitors.

3. The Losing-on-Price Myth

Marketing manager: "I'm really upset!"

Underling: "Why?"

Marketing manager: "We just lost a $750K order to BadCo over a measly $35K difference in price."

Underling: "Why couldn't we just match their price?"

Marketing manager: "We have a cool feature that enables real-time inverse quadratic metrology (RTIQM). It gives us a performance advantage. But it also adds some cost to our system, so we weren't able to come down as low as BadCo did on price."

Underling: "Oh, so the customer just didn't have the ability to pay the extra $35K for the RTIQM?"

Marketing manager: "No, they had the money. They had budgeted $800K for this purchase. They were just fixated on price. That's why we lost."

Underling: "Are you sure that we lost on price? It sounds to me like the customer didn't see any value in our RTIQM capability."

Don't Believe CRM

A scan of your Customer Relationship Management (CRM) system probably indicates that price is the primary reason that you lose orders. Don't believe it.

Nobody's cooking the books. It's just that when a salesperson learns that the competition won an order with a lower price, he or she will likely record the reason for the loss as "price."

If you take this data at face value, you'll start driving the organization to lower gross margin expectations or spend a whole bunch of money on product-cost reduction. But price probably isn't the real issue.

The Only Time You Lose on Price

There is one rare case where you can lose on price. It's the case where your lowest price exceeds the amount of money that the customer has available to spend. Here, you have lost on price if the competition met the available-funds threshold. You've also lost on price if the customer was unable to buy at all because there were no offerings in the market that could be bought with the available funds.

A common capped-funds scenario is the grant-based purchase. For example, let's say a university has applied for and received a $1M grant to purchase your type of equipment, and this is their sole source of funds. If you cannot meet the $1M threshold, you will lose on price.

The Real Reasons You're Losing

All other losses can be categorized as one of these two loss reasons:

1. The customer didn't value your unique capability.
2. Your value was not differentiated.

The first is the scenario played out in the opening dialogue of this chapter. Your product has unique capabilities. The customer acknowledges your uniqueness but doesn't value it.

In the second, the customer sees no difference between your offering and the competitor's offering. So the customer just purchases the lower-priced item.

In both cases, you're not losing on price. Instead, you're failing to provide additional value for which the customer will pay a premium.

What to Do

Your first reaction to price as a loss reason in a CRM entry should be skepticism. Try this: Extract all the loss orders from CRM where price is identified as the culprit. Then, recategorize each as one of the following:

- The price exceeded available customer funds.
- The customer didn't value our unique capability.
- Our value was not differentiated.

For those that were lost because your price exceeded available customer funds, you really did lose on price. If you plan to capture customers like these, you are going to need a differentiated product at a price point below this market's price threshold.

For those where your customer didn't value your unique capability or didn't see any, you have three options.

1. Identify a market segment that sees and values the differentiation your product already has.
2. Remove the differentiated but not valued feature to lower cost.

3. Gain a deeper understanding of how your target customers value products like yours. Then, seek to differentiate on the things that drive value for those customers.

It's very important that you're not cavalier about how you deal with orders that on the surface appear to have been lost on price. The knee-jerk reaction to losing on price is usually a product-cost-reduction program. This is almost never enough. You will need to differentiate on the things that the customer values. The insight for that is born out of an intimate understanding of how the customer benefits from buying a product like yours.

4. Value Selling: The Tail Can't Wag the Dog

You're frustrated. Prices are eroding. It seems that your customers and competitors routinely outmatch your salespeople. You wouldn't be the first CEO, general manager, or product manager whose first reaction to a low margin or lost deal was:

"We can't sell value!"

Perhaps you've tried to fix the problem by investing in developing the sales force's value-selling skills. It's a perfectly logical move. After all, value-selling training programs promise better customer retention, increased sales, and higher prices.

For an equipment supplier, value selling is an especially attractive approach. It fits hand-in-glove with the capital equipment business. The buying decision is nearly always directly linked to the profitability of the buyer's enterprise. Plus, capital equipment selling is usually one to one. Therefore, it is relatively easy to build the strong, close

relationships necessary to develop an intimate knowledge of the buyer's business and understand the impact of your offering on its profitability.

The Value-Selling Prescription

Value selling requires salespeople to quantify the impact of their product on their customer's business, establish a price based on that impact, and then communicate it in a credible way.

This means that, as a salesperson, you must

- Engage early in the sales process,
- Sell at multiple organizational levels,
- Have business-oriented conversations, and
- Understand the financial impact of the product on the customer.

You do these things according to the value-selling process, which can be summarized by these three steps:

1. Identify the prospect's problem and its economic-value drivers.
2. Demonstrate that your product addresses the problem and provides the most economic value.
3. Link that value to your price.

The value-selling process kicks off in step 1 with discovery. Your objective is to understand as much as possible about the prospect's business and problems. In this phase, pay special attention to those problems related to your company's offering and how those problems affect the prospect's economics. Multiple levels of the organization need to be worked to get an accurate and complete picture of your prospect's business.

While in discovery, focus on asking the questions that will reveal how your prospect perceives and quantifies value.

You reach step 2 once you know enough to show how your product will enable the prospect to address his specific problem. First, you establish that your product is relevant to the prospect's problem. Then, you must establish that your product addresses that problem better and provides more economic value than the alternatives in the market.

Finally, that value advantage that you established in step 2 is linked to your price. This is done with a value message that anchors your offer to the financial value that your product creates for the prospect. In turn, this firm connection between price and value forms the foundation on which final negotiations will be based.

It's hard to argue with the value-selling prescription. A value-selling competency is necessary. But it's only one link in the value-strategy chain.

Value Must be Created Before It Can be Sold

The word *product* appears seven times in the value-selling prescription. For value selling to work, a valuable product must exist in the company's portfolio. That product must have been conceived with a value-oriented approach.

Without a valuable product, there is nothing to support your value-selling efforts. Your salespeople can execute the selling process flawlessly. But without a valuable product to sell, they will fail in one of two ways:

1. Lose the sale.
2. Win the sale, but at unwelcome prices.

That means that long before the selling starts, you have to find a market segment big enough to support your financial objectives with lots of customers who have similar buying behaviors and value drivers. Then, you must develop and market a product that hits those customer value drivers better than the alternatives. And you must do this in such a way that your company can make a profit. The prescription for creating a valuable product is very similar to that of value selling:

- Engage your target market long before product development starts.
- Become intimate with your target market's business issues and how you can help.
- Understand the financial impact of your product on the customers in your target market.

Value has to be defined, created, and marketed at a market-segment level following this prescription before it can be sold to individual customers. See Figure 3.

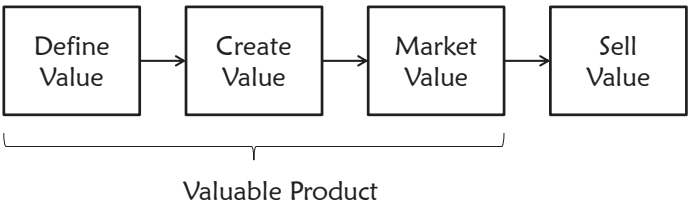


Figure 3: Value must be created before it can be sold.

The most successful value-selling organizations have had the forethought to turn their customer intimacy and detailed understanding of their competition into valuable products.

Value selling comes at the tail end of a value-based strategy-implementation effort and is not useful unless it is applied to a valuable product. The tail cannot wag the dog.

About the Author

Michael Chase is a veteran of the capital equipment industry and president of Tekcess International, a consulting firm dedicated to helping capital equipment companies grow and compete. Before forming Tekcess International, he held executive positions in general management, engineering, marketing, and customer service in large and small capital equipment companies.

Over his career, he has assembled a track record of improving market share and profitability. He has developed and introduced multiple new products, driven corporate strategy, trained sales organizations, introduced disruptive technologies, broken into new markets, defined and implemented product strategies, and developed successful organizations.

As an independent consultant, Mike has worked as a board member, contract executive, staff consultant, advisor, facilitator, and trainer to complete numerous strategy, product management, and marketing projects for clients. Mike is also the author of *Equipped to Win* and publishes *Equipped*, a monthly management newsletter for capital equipment professionals.

To learn more about Mike and Tekcess International, visit www.tekcess.com.

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