Rethinking the 4Ps: From Selling Products to Selling Solutions

International Housewares Association
Chicago
17 June 2014
Why is customer value important?
Shareholder Value is only Half of the Equation
The Consumption/Production Perspective on Value

VALUE CREATION: MARKETING

Perceived Benefit vs. Price

VALUE CAPTURE: FINANCE

Revenue vs. Economic Cost
The Formula for Sustainable Business Success

Perceived Benefit vs. Price

Revenue vs. Economic Cost
What do customers value?
Customer Value

What the customer buys and considers value is never just a product. It is always a utility, that is, what a product or service does for him.

Peter Drucker
Author and business theorist
1909 to 2005
There are no Brands on the planet Vulcan (product specs are all that is needed)
Customer Value (Vulcan Version)

Performance : Price
Customer Value (Earthling Version)

Performance
Convenience
Security
Belonging
Status
Meaning
...and a lot more

: Price
If you do not know what problem you are trying to solve for the customer, then you should not claim to have a “solution”
The New Imperative

FROM

Which of our products and services might this customer be in the market for?

TO

In what way can we contribute to the business success of this customer?
How does B2B differ from B2C?

B2C: DIFFERENT FROM

“Ours is better than theirs”
Relative to competition
Performance
Product features

B2B: DIFFERENT FOR

“Right for you”
Relative to your needs
Outcomes
Solution
Rethinking the 4Ps
Rethinking the 4 P's

It's time to retool the 4 P's of marketing for today's B2B reality. As a framework for fine-tuning the marketing mix, the P's—product, place, price, and promotion—have served consumer marketers well for half a century. But in the B2B world, they yield narrow, product-focused strategies that are increasingly at odds with the imperative to deliver solutions.

In a five-year study involving more than 500 managers and customers in multiple countries and across a wide range of B2B industries, we found that the 4 P's model undercuts B2B marketers in three important ways: It leads their marketing and sales teams to stress product technology and quality even though these are no longer differentiators but are simply the cost of entry. It underemphasizes the need to build a robust case for the superior value of their solutions. And it distracts them from leveraging their advantage as a trusted source of diagnostics, problem solving, and advice.

It's not that the 4 P's are irrelevant, just that they need to be reinterpreted to serve B2B marketers. As the chart at right shows, our model shifts the emphasis from product to solution, place to access, price to value, and promotion to education—SAVE, for short.

Motorola Solutions, a pioneer of the new framework, used SAVE to guide the restructuring of its marketing organization and its go-to-market strategies in the government and enterprise sectors. Along the way the firm identified three requirements for successfully making the shift from 4Ps thinking to SAVE.

First, management must encourage a solutions mindset throughout the organization. Many B2B companies, particularly those with an engineering or a technology focus, find it difficult to move beyond thinking in terms of "technologically superior" products and services and take a customer-centric perspective instead.

Second, management needs to ensure that the design of the marketing organization reflects and reinforces the customer-centric focus. At Motorola Solutions, this led to the dramatic reorganization of the marketing function into complementary specialties, allowing focus on each element of the SAVE framework and alignment with the customer's purchase journey.

And third, management must create collaboration between the marketing and sales organizations with the development and delivery teams. Motorola Solutions required that specialist teams concentrate on solutions and coordinate their approaches to specific customer needs. This ensured that functional boundaries did not determine the firm's solutions.

B2B marketers who continue to embrace the 4 P's model and mind-set risk getting locked into a repetitive and increasingly unproductive technological arms race. The SAVE framework is the centerpiece of a new solution-selling strategy—and B2B firms ignore it at their peril.

Richard Ettensohn is a professor at Thunderbird School of Global Management. Eduardo Conrado is a senior VP and the chief marketing officer at Motorola Solutions. Jonathan Knowles is the CEO of Type 1 Consulting.
The SAVE Framework

Focus on **SOLUTION**
Define offerings by the needs they meet, not by their features, functions, or technological superiority.

Focus on **ACCESS**
Develop an integrated cross-channel presence that considers customers’ entire purchase journey instead of emphasizing individual purchase locations and channels.

Focus on **VALUE**
Articulate the benefits relative to price, rather than stressing how price relates to production costs, profit margins, or competitors’ prices.

Focus on **EDUCATION**
Provide information relevant to customers’ specific needs at each point in the purchase cycle, rather than relying on advertising, PR, and personal selling that covers the waterfront.
# The SAVE Framework

## From the 4Ps to S.A.V.E.

<table>
<thead>
<tr>
<th>THE TRADITIONAL 4Ps OF MARKETING</th>
<th>THE S.A.V.E. MINDSET AND IMPERATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRODUCT</strong></td>
<td><strong>SOLUTION</strong></td>
</tr>
<tr>
<td>Continually improve features and functions.</td>
<td>Define offerings in terms of the current and emerging needs that they meet.</td>
</tr>
<tr>
<td>Differentiation is based on technological superiority relative to competitors.</td>
<td>Differentiation is based on the relevance of the offerings to the specific needs of customers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>PLACE</strong></th>
<th><strong>ACCESS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine the locations/channels through which customers find it most convenient to purchase.</td>
<td>Consider the customer’s entire purchase journey: how and where they access the solution, take delivery, and incorporate it into their value chains.</td>
</tr>
<tr>
<td>Identify appropriate distribution partners, wholesalers, and middlemen.</td>
<td>Develop an integrated, cross-channel presence.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>PRICE</strong></th>
<th><strong>VALUE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Set price relative to competitors, cost to produce, and profit margin requirements.</td>
<td>Understand the role that the solution plays in increasing the customer’s business effectiveness.</td>
</tr>
<tr>
<td>Manage the real and perceived price the customer pays.</td>
<td>Articulate the full range of benefits provided relative to the price.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>PROMOTION</strong></th>
<th><strong>EDUCATION</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Communicate the full range of product features and functions.</td>
<td>Develop a program to provide relevant information to customers at each point in the purchase cycle.</td>
</tr>
<tr>
<td>Ensure the message’s reach through advertising, publicity, and personal selling.</td>
<td>Focus communication on the customer’s needs and required benefits, not the full range of product features and functionality.</td>
</tr>
</tbody>
</table>
Group Discussion #1

Three SAVE exercises
Exercise 1: Your Business Environment

DYNAMICS OF YOUR BUSINESS ENVIRONMENT

Your customers have become more demanding, requiring more proof of the business justification for purchasing your products and services.

Your customers have become increasingly resistant to price increases over recent years.

New rivals have entered your markets offering “capable-enough” products and services.

The communication of your value proposition has become more complex over recent years.

You have lost bids and business to competitors whose offerings you consider inferior to your own.

Your customers view you as a product and service vendor rather than as a strategic partner to their business.

The level of competitive differentiation you are able to achieve via product quality and innovation has been declining over recent years.

<table>
<thead>
<tr>
<th>LEVEL OF AGREEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRONGLY DISAGREE</td>
</tr>
<tr>
<td>DISAGREE</td>
</tr>
<tr>
<td>NEUTRAL</td>
</tr>
<tr>
<td>AGREE</td>
</tr>
<tr>
<td>STRONGLY AGREE</td>
</tr>
<tr>
<td>WEIGHTED TOTAL</td>
</tr>
<tr>
<td>5 21 21 1.34</td>
</tr>
<tr>
<td>2 11 15 19 1.09</td>
</tr>
<tr>
<td>3 8 19 17 1.06</td>
</tr>
<tr>
<td>1 11 25 10 0.94</td>
</tr>
<tr>
<td>2 4 11 20 10 0.68</td>
</tr>
<tr>
<td>12 9 20 6 0.43</td>
</tr>
<tr>
<td>6 18 5 14 4 (0.17)</td>
</tr>
</tbody>
</table>
Exercise 2: Your Solutions Readiness

DIMENSIONS OF SOLUTIONS READINESS

Your sales teams demonstrate strong business consultation skills in addition to in-depth knowledge of the technical specifications of your offerings.

Your go-to-market strategy is based on integrated offerings that are customized for each of the major customer segments you serve.

You have implemented a policy of specialization within your marketing team (e.g. by designating vertical, technical, and communication specialists).

You conduct regular customer research to ensure that you have timely insight into their needs – and the needs of your customers’ customers.

You articulate a value proposition specific to each of the major business functions that have a significant voice in your customers’ purchase decisions.

You have created case studies that demonstrate the “solutions value” of your offerings in terms of their impact on your customers’ business performance.

Your compensation system rewards your sales and marketing teams for the quality of their solutions and for collaboration.

<table>
<thead>
<tr>
<th>LEVEL OF AGREEMENT</th>
<th>STRONGLY DISAGREE</th>
<th>DISAGREE</th>
<th>NEUTRAL</th>
<th>AGREE</th>
<th>STRONGLY AGREE</th>
<th>WEIGHTED TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>9</td>
<td>3</td>
<td>19</td>
<td>15</td>
<td>0.81</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>9</td>
<td>19</td>
<td>9</td>
<td></td>
<td>0.57</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>10</td>
<td>6</td>
<td>26</td>
<td>3</td>
<td>0.38</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>12</td>
<td>9</td>
<td>17</td>
<td>7</td>
<td>0.32</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>16</td>
<td>8</td>
<td>14</td>
<td>7</td>
<td>0.17</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>10</td>
<td>11</td>
<td>20</td>
<td>2</td>
<td>0.13</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>10</td>
<td>18</td>
<td>11</td>
<td>4</td>
<td>0.02</td>
</tr>
</tbody>
</table>
Exercise 3: Your Priority Areas for Action

PRIORITY AREAS FOR IMPROVEMENT

Customer Value - Assessing, understanding, and meeting customer needs and expectations better than competitors.
Segmentation – Identification of different groups of customers based on similarities in their needs and expectations.
Research – Delivery of a continuous stream of customer insights to inform major strategic and operating decisions.
Collaboration – Working with customers in ways that blur the boundaries between your customers’ and your organization.
Investment Focus – Focus on customer retention and partnership development, not just customer acquisition.
Structure – Organization around key customer segments, not products and/or technologies.
Compensation – Reward systems that encourage internal collaboration and focus on delivering distinctive levels of customer value

<table>
<thead>
<tr>
<th>RANK ORDER OF IMPORTANCE</th>
<th>WEIGHTED TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
Group Discussion #2

Sources of customer value
Customer Value

What the customer buys and considers value is never just a product. It is always a utility, that is, what a product or service does for him.

Peter Drucker
Author and business theorist
1909 to 2005
Maslow’s Hierarchy of Needs

- **Physiological**
  - Breathing, food, water, sex, sleep, homeostasis, excretion

- **Safety**
  - Security of body, of employment, of resources, of morality, of the family, of health, of property

- **Love/Belonging**
  - Friendship, family, sexual intimacy

- **Esteem**
  - Self-esteem, confidence, achievement, respect of others, respect by others

- **Self-actualization**
  - Morality, creativity, spontaneity, problem solving, lack of prejudice, acceptance of facts
Different Sources of Value for Customers

- **MEANING**
  - Self-actualization
  - Esteem
  - Love/Belonging
  - Safety
  - Physiological

- **STATUS**
  - self-esteem, respect of others, respect by others

- **COMMUNITY**
  - friendship, privacy

- **CONFIDENCE**
  - security of morality, security of resources, security of property

- **PERFORMANCE**
  - breathing, food, stasis, excretion

(Other values related to morality, creativity, spontaneity, problem solving, lack of prejudice)

TYPE 2 CONSULTING
Key Takeaways

Assume that customers are rational, but their purchase decision is complex because they are seeking to optimize across multiple forms of benefit.

Providing a true “solution” requires helping the customer identify what represents the best decision for them.
Is there a roadmap to follow for the transition to a solutions-based approach?
Stage 1: Solutions-Based Transformation

Observations based on our experience with SAVE

STAGE 1 – BUSINESS STRATEGY

1. Deepen your understanding of sources of customer value, and the issues on which there is strong appetite among customers for solutions

2. Identify dimensions on which you can deliver distinctive value, and what capabilities you need to acquire/develop to offer those solutions

3. Segment your customer base, and develop value propositions that are specific to each segment

4. Model the business economics of making the change to a solutions-based approach - and the implications of sticking with “business as usual”

5. Identify opportunities where a solutions-based approach areas can be “beta tested” in relative isolation from the rest of the business

6. Get leadership buy-in and mandate for broader roll-out
Stage 2: Solutions-Based Transformation

Observations based on our experience with SAVE

STAGE 2 – PROGRESSIVE IMPLEMENTATION

1. Organize a series of internal, cross-functional workshops to refine the customer segmentation, and the articulation of the value proposition to the key influencers of the purchase decision in each segment

2. Identify what organizational changes are required in the sales, marketing and customer support teams to present these customer segments with solutions that match their pressing business needs

3. Develop a program of sales training to equip the sales force to do solutions-selling

4. Identify what organizational changes are required in the IT, NPD, productions and operations areas to support the development and delivery of customer solutions

5. Implement a program of ongoing customer research/feedback to ensure the timely identification of new areas for value delivery
Recap of Key Points
SAVE Framework – The B2B Version of the 4P’s

The SAVE framework helps B2B companies demonstrate how they improve the business performance of their customers by enhancing their consultative selling capabilities, SAVE improves their ability to act as strategic business partners to their customers.

SAVE was developed through a collaboration between Motorola Solutions, the Thunderbird School of Global Management, and Type 2 Consulting.

It was profiled in the Jan/Feb 2013 edition of the Harvard Business Review.
Shareholder Value is only Half of the Equation
The Formula for Sustainable Business Success

Value Creation: Marketing

Value Capture: Finance

Perceived Benefit vs. Price

Revenue vs. Economic Cost
Customer Value

What the customer buys and considers value is never just a product. It is always a utility, that is, what a product or service does for him.

Peter Drucker
Author and business theorist
1909 to 2005
Sources of Customer Value

- MEANING
  - Self-actualization: morality, creativity, spontaneity, problem solving, lack of prejudice
- STATUS
  - Esteem: self-esteem, respect of others
- COMMUNITY
  - Love/Belonging: friendship, security of resources, of property
- CONFIDENCE
  - Safety: security of morality, breathing, food
- PERFORMANCE
  - Physiological: stasis, excretion
226 Fifth Avenue
6th Floor
New York
NY 10001

C: 646 345 6782
T: 212 537 9200
F: 212 658 9869

j.knowles@type2consulting.com