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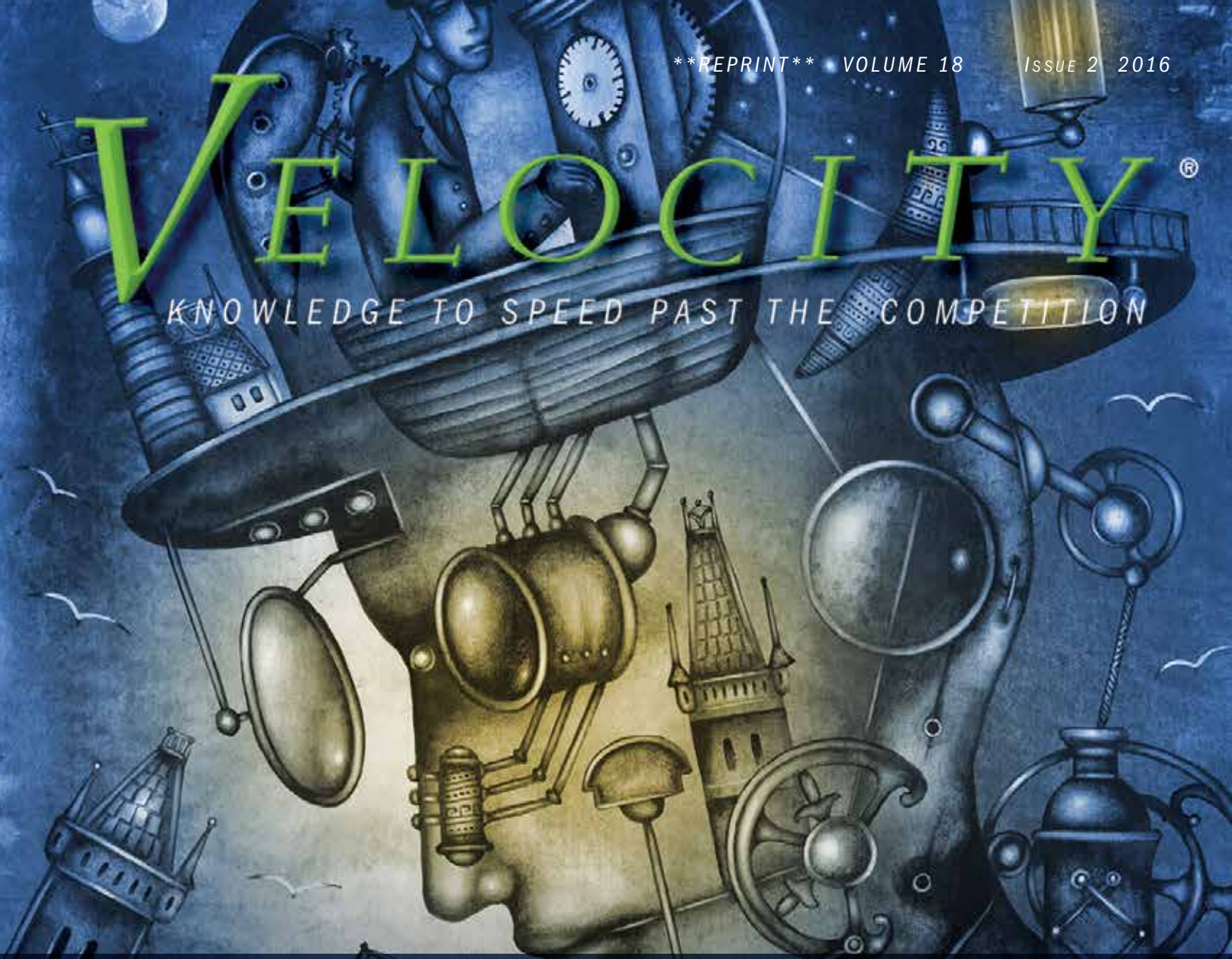

THE FUTURE STATE OF SAM:

HOW TECHNOLOGY, SOCIAL, THE RISE OF MILLENIALS AND MORE ARE UPENDING THE STATUS QUO

STRATEGIC ACCOUNT MANAGEMENT ASSOCIATION

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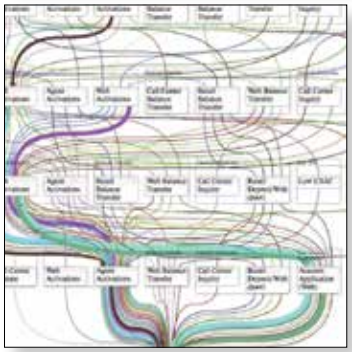

FEATURES

14 What do customers think of when they think of You?

16 Implementing a new business technology platform to optimize sharing and discovery of customer insights: A DHL case study

23 Pricing myths: A conversation

31 Four megatrends upending strategic account management

38 Seeds planted in poor soil can't grow

DEPARTMENTS

Editor's Corner **6**

Quick Takes **8**

Data Watch **13**

Book Review **41**

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A PUBLICATION OF THE STRATEGIC ACCOUNT MANAGEMENT ASSOCIATION

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EDITOR'S CORNER

What do you know? Another SAMA Annual Conference is about to get underway, and with it comes the new issue of *Velocity*®. Also new this time around is editor Gloria Naurocki, who will take over day-to-day editing duties on *Velocity* from here on out. Gloria has already had a long and distinguished career in writing and editing, association management and education. She's taught business writing, served as marketing director for the American Marketing Association and as marketing and membership director for the American Nuclear Society (among other positions). SAMA feels very lucky to have her.

On to the issue of *Velocity* you hold in your hands. Leading off the issue, communications consultant David Topus writes about the importance, in today's business world, of cultivating your personal brand and linking it to your company's own value proposition. Next, DHL offers a SAMA Excellence Award-winning case study outlining how the company introduced a new business technology platform to optimize the discovery and sharing of customer insights across its organization. It's tremendous, and it's full of meaty details on the rollout and adoption.

Andreas Hinterhuber (of Hinterhuber & Partners) and Todd Snelgrove (vice president for value at SKF) offer us their incredibly enlightening take on a series of persistent pricing myths – and then debunk them with a combination of their own experiences and empirical research.

Following that, we adapt a fantastic webinar from McKinsey & Co.'s Jennifer Stanley on the myriad ways in which the shifting business world is changing the way SAMs need to operate with their customers. Next, SAMA's research general manager, Elisabeth Cornell, presents some key findings from SAMA's latest research report and argues that many companies still struggle to create the right culture and processes to allow the SAM initiative to thrive.

Finally, Ron Davis, executive vice president for global customer management for Zurich Insurance, offers a review of *The Co-Creation Edge: Harnessing Big Data to Transform Sales and Procurement*, the new book co-authored by SAMA President & CEO Bernard Quancard and Francis Gouillart, of the Experience Co-Creation Partnership. ■

Sincerely,

Nicolas Zimmerman
Editor
Strategic Account
Management Association

PRICING MYTHS: A CONVERSATION

By Todd Snelgrove
Vice President for Value
SKF
and
Andreas Hinterhuber
Founder and President
Hinterhuber & Partners

Andreas Hinterhuber: What our research at Hinterhuber & Partners has found is that many of the current pricing strategies are not driven by what the current textbook best-practice would suggest but frequently a series of unexamined myths or misconceptions. Much of the pain, in other words, is self-inflicted.

Todd Snelgrove: Some companies will say that pricing is part of the *Four Ps of Marketing*, so this is not even really a SAM responsibility, it is a back-office function. Do you have any comments in regards to that?

AH: I think pricing is, of course, an element of the *Four Ps* and, as such, it needs to be managed. But most frequently, it falls between the cracks. In many companies, there is a function such as chief pricing officer that has a very strong stewardship role in pricing. But if this function is not yet established, then the next natural place to locate responsibility for pricing is a commercial function such as strategic account management. Strategic account managers (SAMs) know their customers, negotiate deliveries, are responsible for the delivery of the overall solution to customers, and so a SAM should be heavily involved in pricing.

TS: Great point. If nobody owns it, nobody is going to manage it and make it better. You talk about the difference between "price setting," which happens in the back office, and "price getting," which is the SAM's role and is the difference between what we think we should charge and what we actually get. In North America today, when a lot of companies are happy to have a 10 percent net profit, 1 percent effective "price getting" affects your total profit by 10 percent. So every percent is worth fighting for.

Let us get into our price-setting myths. **Myth #1: Costs are the basis for pricing**. What do you mean there?

AH: The dominant assumption is that, in order to set prices, the most effective basis is cost. Many B2B companies emerged from a technical background, and they are basically in love with cost-based pricing. In order to break this myth, I would like to cite an example from the B2C world. First, we all know that metallic paint on a car will cost you anywhere between 500 and 2,000 euros. But the car needs to be painted anyway, so the incremental production cost is a negligible amount, typically around 50 or 80 euros per car.

Strategic account managers (SAMs) know their customers, negotiate deliveries, are responsible for the delivery of the overall solution to customers, and so a SAM should be heavily involved in pricing.

Of course, car companies understand that they should not set prices for this feature based only on cost, and so they ask themselves, "How much is the customer willing to pay?" You see this also in airlines, where people pay between 15 and 25 euros to board their flights early because customers are willing to pay for the privilege.

I think the tectonic shift that we need to make in order for pricing to become a true driver of profit is to focus less on what our costs are and more on what the customer gets, how the customer benefits. It should be based on the incremental profitability improvement the customer experiences by utilizing our products or processes.

TS: I am smiling here because, even for a global engineering company like SKF, just understanding what your actual costs are is an interesting road to travel. Because even if you start with the question of what this is worth to the customer, you have to know what your own costs are to determine whether it makes sense. Too often, companies assume that there is value for the customer that is not actually there; so costs need to be checked, albeit it should be the last check box when determining price.

AH: The fundamental insight here is that you invert the traditional pyramid. You start with value, look at the most relevant competition, and then you do the cost check last.

TS: Let us move on to **Myth 2: Small price changes have little impact**. Like I mentioned earlier, the 1 percent price improvement can impact a company's net profit by 10 percent. And one thing I always find funny is, at least in my industry, customers always tend to think in terms of 5 percent increments.

AH: The talking point here is that current research shows that small changes in price have a dramatic impact on profitability, as I cited earlier. If the profitability is lower, then small changes will have an even more dramatic effect on overall profitability. Many account managers tend to formulate their thought process around 5 and 10 percent increments. They probably should be examining their discounting structures, moving from 5 or 10 percent discounts to something more fine tuned.

One area to look at is cash discounts. In many European markets, suppliers typically offer customers a cash discount of 2 to 3 percent for payments within 7 to 10 days. With solid customers, that is actually a very expensive way to get money. So I would invite the SAM to reexamine the payment terms and look for whether the cash discount of a given

Source: Hinterhuber, A. (2016). The six pricing myths that kill profits, Business Horizons 59(1): 71-83. (c) Elsevier, 2016, all rights reserved. Reprinted with permission.

Many account managers think, "Well, if I grant my customer an extra 5 percent discount, it reduces my revenues by 5 percent. But at least I have the deal." But what many do not seem to realize is that, if you are operating with a very thin profit margin, then that can literally wipe out the profitability of the deal.

magnitude can be tailored to the specific circumstances of each individual customer, such as credit risk, overall customer profitability or other metrics.

I think the fundamental idea is that pricing has such a strong impact on profitability that we need to examine a number of items, on- and off-invoice. But many account managers think, "Well, if I grant my customer an extra 5 percent discount, it reduces my revenues by 5 percent. But at least I have the deal." But what many do not seem to realize is that, if you are operating with a very thin profit margin, then that can literally wipe out the profitability of the deal. So it really comes down to getting the details right – not just the high-level picture, but the nitty-gritty details. If you give me a penny every day, these small pennies add up to a lot of money. And this is the mentality that every SAM or KAM would be well-advised to adopt.

TS: Absolutely. **Myth #3: Customers are highly price sensitive.** In other words, the perception is that customers will switch to another competitive supplier to save just a little bit. But your research says that more people are focusing on total cost of ownership than on initial price.

AH: The research is very clear: Customers in B2B are more concerned about total cost of ownership or total value of ownership than they are on price, and I think every SAM should reflect on this finding. Now remember: it is literally in the job description of the purchasing manager to convey to the sales manager or account manager the idea that it is all about price. But we should not forget that the decision in B2B purchases is, in many cases, ultimately not made by the purchasing function but by the business function. And this person has to be concerned with the benefit versus price, and the business function would make a big mistake to consider only price.

TS: I love how you use the term *total value of ownership*, which is just an evolution of total cost of ownership. The only caveat I would offer is that the value had better be tangible, it had better be measurable, and it had better be understandable to the procurement person and the business unit. It cannot be the soft promises of things but rather the business case showing that paying more actually will result in a better return for the company.

Myth #4: It is difficult to differentiate products or services in today's market, when everything looks the same or there is a substitute that meets the same minimum specifications.

AH: My own modest thought is that if you think of your product or service as a commodity, then your product or service will be a commodity. The best example is again one from B2C, where General Motors and Chrysler were convinced that customers would shop first, second and third on price. And what that meant was that these companies marketed cars that they considered to be interchangeable, and these cars were basically sold mainly through incentives or discounts, and they did, in fact, become commodities. Now contrast this with Volvo or BMW or Mercedes, which would magnify the small differences in their cars – for example, safety for Volvo or comfort for Mercedes. These small differences made a huge difference in the consumer's perceived value.

These principles apply in B2B as well, of course. B2B marketers thus need to understand what drives value for the customer from the customer's perspective. A question B2B marketing and sales managers should ask is: "How can

The value had better be tangible, it had better be measurable, and it had better be understandable to the procurement person and the business unit.

I take small differences in product specs and features and highlight their impact on customer profitability and customer operations?"

Put differently: There is no such thing as a commodity. Any product, service, or solution can be differentiated. Products become commodities only if and when B2B marketing and sales managers treat them as such.

TS: Great stuff here, although I would like that word that starts with a "C" taken out of the dictionary because there are very few products or services that really fit the definition. Now, one thing a procurement professor told me once – and remember, this came from a procurement expert – that procurement professionals confused the concept of International Standards Organization (ISO) conformance standards with performance standards. Just because something meets the size, width and dimension, that is a *conformance* standard. It is not the same as a *performance* standard. Just because two products may look the same, it does not mean they will perform the same, either because of the product itself or all the things done around the product.

One last note here where I think marketing organizations sometimes fall short. Gone are the days when it matters much, for instance, how long you have been in business. As long as you are big enough and have been around long enough and can deliver, you need to be focusing on what is different – what creates measurable value that can be shown to the end user of the product or service.

AH: Perfect. And let us not forget that when you talk about value-based pricing, this is actually shorthand for *customer* value-based pricing. You need to guard against mindless differentiation. There is nothing more annoying for a customer than an account manager telling them 20 or 30 different ways their product is different. If customers feel that this difference is not relevant, they simply will say: "I do not care." So again, it all starts with understanding the customer's unmet needs, understanding the impact of your own product or solution on the customer's key metrics.

TS: So we are back again to one of the primary jobs of the SAM: listening to the customer's true needs, and showing them how you can truly affect them with differentiated offerings that really impact those needs. Moving to **Myth #5: Market share is tied directly to profitability**. Talk to me about the research in this area.

AH: This is the result of outdated research from the 1970s and '80s. But times change, data changes, and research findings change. And current research fails to find a relationship between market share and profitability, and the reason is that high market share often is the result of low prices and strong discounting. Of course, lowering your prices and flooding the market in order to gain share is not going to do anything for your bottom line. There are a large number of former number one companies that are now bankrupt: General Motors, Blockbuster, Kodak, all bankrupt. So market share leadership is not worth a cent. What is a desirable business objective is leadership in customer insight. Our research and strong conviction indicates that profitability is a function of customer insight. So this must come first, and profitability will naturally follow. As a result, we may achieve high market share, but not the other way around.

TS: So the difference is between cause and effect there, for sure. And again, it is really the SAM's job here to be the one gaining that insight into the customer, becoming the expert on their pain points and unmet needs.

Myth #6: Managing prices means changing prices. You touched on this a little earlier.

AH: So many companies say, "OK, now I understand. Maybe we did not do pricing well in the past, but now we understand the misconceptions and

If you think of your product or service as a commodity, then your product or service will be a commodity.

myths, and that means we need to change prices." Of course, there are times when prices are misaligned with value. And in these cases there is no other option but to change prices. But managing price goes beyond this. It also means building up capabilities to choose, to influence, to quantify the value you bring to your customers. And that does not necessarily involve changing prices.

TS: We have that business conversation where we say, "Yes, the price we charge is 20 percent higher, but that is an investment." We say, "When you pay this, this is the payback, and the payback is hard and measureable, and in some cases, we will guarantee it." It is also critical for our teams not only to be able to quantify value but to be comfortable using procurement's language — cash-flow, break-even, return on investment, risk and adjusted return… especially for a technical salesforce that is more comfortable talking about the technology of their product or service.

We talk a lot about two pricing terms: WTP, which is willingness to pay, and ABT, which is ability to pay. What we have found is that the more concrete the value — you know, "I can guarantee you X savings this year" — and the more measurable and credible it is — the more people are going to be able to pay for it and willing to pay for it.

AH: Would you briefly comment on these myths from your own perspective? Let us start with myth number 1: Looking at the history of SKF, what has been the role of costs in pricing?

TS: I think that in most industrial companies that I work with, cost is the main driver, and then they attach certain markups — minimum markups, target markups, etc. I know that at SKF when we are creating new products and services that have a differentiated value, we want to start with "What is the value for the customer, versus the next best alternative?" We want to start with a base value of what this product or service, versus the alternatives in the market, will bring to the customer. We do check costs afterwards, and ask "Does this make sense?"However, we now look at costs after estimating value for the customer, not at the starting point. So we have seen a change there.

AH: What about the impact of small changes in price on profit? How do you encourage the SAM to fight for small changes in net selling prices?

TS: One thing I see best-in-class companies doing is really focusing on, not just sales dollars that a SAM might have responsibility for, but the profit of those — the profit not just on a discount, but all these free things that are thrown in, that maybe their own company does not see as a cost, or they can get away with, like maybe we will throw in some free training over here, or do a free service over there. OK, that is just another form of discounting, but I want to measure people on *creating* more customer value, and then their ability *to communicate* value and get paid for it. And that has been a bit of a change, because systems are more set up to ask, "What do we sell to that customer this year?" So SKF is working on changing there, and as you said, as we talked about, every percent is everything. I mean, it drops to the bottom line, and we can only be more valuable to the customer if we can get the return for the investments that we are making.

AH: Let us talk about myth number 3: what have you found regarding the price sensitivity of different customer segments within SKF? How do these findings compare to what some purchasing managers like your sales managers to believe, namely that it is all about price?

TS: If a procurement person can get you to implement for them and help them take costs out and bring all the value you do as a company, while paying you a lower price, price is part of the overall calculation. So if I had the ability to stop and push back and say, "OK, a 5 percent price savings would equal this to you, but here is the savings we see in helping you take the right costs out or helping you increase the value over here, and that is ten times more

than a 5 percent price savings, so are we looking at the right part here?" Having the tools, the techniques and the data to be able to say, "We are looking at the wrong number. Yes, price is visible, but the real value is over here," and to have a discussion around that and focus on making sure we both get an equitable, and sometimes a guaranteed, return on that value.

AH: Myth number 4: products are difficult to differentiate. At SKF, would you make a conscious effort to differentiate products that competitors might view as relatively undifferentiated?

TS: Yes. Our technical people like to talk about the differentiation, even in the products that are perceived by our competitors as commodities, the hardness of this and the better of that, etc. But what we have come to realize over the last decade is that it is not the product itself that usually creates value for the customer; it is the holistic approach, looking not at how it is done, but at the results that come from it, like how you installed the bearing, how you lubricated it, all these other things around it. So the value of the differentiation might not be the product, but everything around it, in how it is applied.

AH: Myth number 5: High market share equals high profits. How important are market-share goals within SKF?

TS: There is an old Latin saying called *Ceteris Paribus*, which approximately translates in English to "everything else is equal." The old research that the higher the market share, the more profitable a company is, only works if everything else is equal. Well, it usually is not; more market share might mean bigger discounts or more free services or whatever.

SKF realized that we have got to demonstrate value and what it means, and that is how we are going to gain market share. We focused on saying to the customer, "The more profit we create for you that is measurable, the more market share we want from you at a non-discounted price." So we have had two levers here: we get more of their business, higher market share, or they buy different things from us, because that is what drives our factories etc. Those two things occur only if we create more quantifiable value for the customer. And we measure our SAMs on them. So now we have aligned our customer's interests and our interests 100 percent.

AH: Very good. Basically the fundamental insight is that you earn your market share organically. You build your market share through true improvement at customer operations.

AH: Myth number 6: Managing price means changing prices. We addressed this point earlier on. You do not necessarily have to change prices, you can and perhaps should start with this whole idea of quantifying and documenting benefit to the customer, and SKF is a superb example in this respect. I would like to mention that as you work on value-based pricing and value-based selling, you should also work on your pricing infrastructure, such as sales force capabilities.

TS: We have some very smart people who are good at initially setting prices and working on a value-based system for that, but we need to make sure that people in the field have the tools and techniques to convey to the customer what that value is. Again, headquarters calculating a price based on customer value is fine, but if, in the field, the SAM is unable to justify that price with hard documentation or to have the willingness to get paid based on that value, it kind of does not matter. So I think we have gotten better over the years on tying those two together.

One study I use all the time in my presentations is from the Monitor Group, which is now part of Deloitte. It says that companies that are really good on value, communication, quantification and pricing, all those different components of pricing, are 35 percent more profitable than companies that focus on a market share approach. So there is the justification for the SAM to say, "If we could do these things, this is the impact it would have on our business," but that requires, again, not just a tool to quantify value, but a thought process, a belief and a willingness to focus on value.

The other thing I want to add is one of my favorite quotes, which comes from our former CEO Tom Johnstone. "How many ways does our company have to discount price — by industry, product, service, situation?" And "How many ways do we have to say to the customer, 'No, we are not going to discount it; we bring more value and we will stand up for that.' Most companies spend the wrong time and effort on having the processes to discount, maybe they should have the processes and tools not to." And I remember when he said that it was a given; it really gave the impetus to say, "Maybe we are spending the wrong time on the wrong side of the equation." ■

Todd Snelgrove is vice president for value at SKF. Andreas Hinterhuber is the founder and president of Hinterhuber & Partners. The pair will present a conference session on the subject of pricing at SAMA's 2016 Annual Conference in Chicago. They also are co-authors of the upcoming book *Value First Then Price: Quantifying Value in Business-to-Business Markets from the Perspective of Both Buyers and Sellers* (Routledge, Fall 2016).