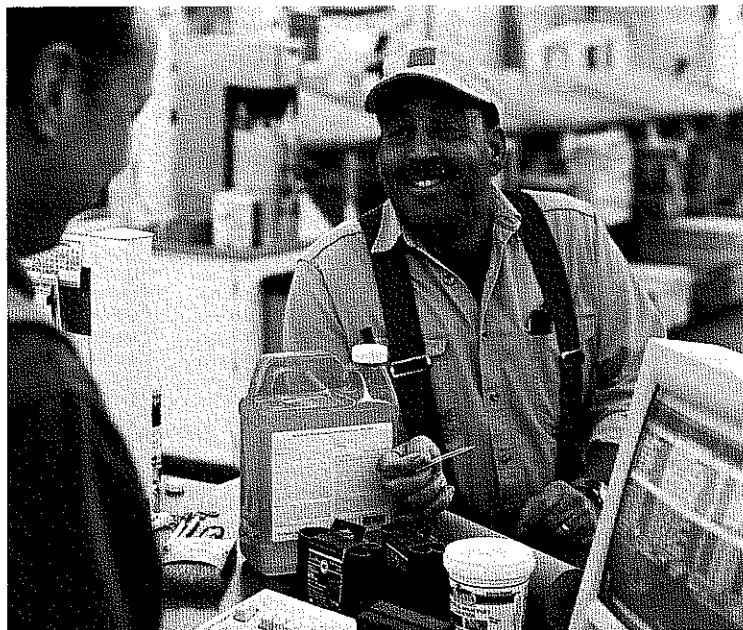


Cementing Relationships

A short menu of high-value offerings builds profits.

By Jim Braselton and Bruce Blair



MARKETING lore suggests that Henry Ford lost out to General Motors because he refused to offer the Model T in any color other than black. Although the reality was more complex—the Model T had become technologically obsolete by the time of its retirement—it's become a fundamental axiom of marketing that customers won't settle for one-size-fits-all solutions.

Indeed, many marketing success stories in recent years have been about expanding customer choice. Today the revolution is nearly complete. For every type of product or service, customers can get pretty much anything they want, whenever they want it. They can walk into a clothing store and pick from a half-dozen styles of jeans or get a custom fitting and have them made to order. They can order any of hundreds of on-demand movies on their cable boxes. They can build their own computers on the Web and connect them to the broadband service of their choice. They can log on to their companies' 401(k) sites and choose from an array of investment products. Later, if they change their minds, they can stop at the local coffee shop, log back on, and adjust their portfolios while sipping their favorite "half-caf" Sumatran double lattes with a caramel swirl.

The revolution isn't limited to consumers. B2B marketers are, if anything, even more obsessed about customer choice. Compared with consumer markets, B2B customers tend to be fewer in number but are bigger spenders, so suppliers have to stay close to them. With flexible manufacturing, Web-based services, and customer relationship management (CRM), they're now able to offer customers far more choices than in the past.

Costly Choices

So what's wrong with choice?

Well, it can be expensive and time-consuming for suppliers and customers alike. It takes a lot of work to offer customers more choices. Less obviously, it also takes work from customers to accept those choices. Some choices are worth the effort. But frankly, some aren't.

For example, many online airline reservation systems now let travelers select their own seats. And why not? Many travelers have a strong preference for an aisle seat or a window seat, or for the front vs. the back of the plane.

But do customers really care whether they get seat 14C or 22D? Is it really worth the time and trouble to add complexity to the reservation process and

force customers to invest their time in making that choice? Why not simply keep their preferences on file (as travel agents have done for years) and pick a seat for them?

A recent study published in the *Harvard Business Review* shows how too much choice in product design can undermine customer loyalty and satisfaction ("Defeating Feature Fatigue," February 2006). The study found that when consumers are shopping for products, they like lots of features. Given the choice, they'll even add extra features.

But once they start actually using the product, the picture quickly changes. They see these same products as being too complicated. They become frustrated. Satisfaction plummets. The researchers concluded that although some choices add value, too much choice makes people's lives harder, not easier.

The Lafarge Experience

The critical challenge for marketers is to manage choice to deliver more value to the customer and the bottom line. Our experience shows how one B2B supplier created more value by offering less choice.

Lafarge is one of the largest diversified suppliers of construction materials

in the United States and Canada. Over the years, Lafarge had encouraged the sales force for the cement division to offer a wide variety of added-value services to customers. After interviewing customers, salespeople developed customer-specific "action plans," which included options such as technical training, lab testing services, and product alternatives. By 2004, Lafarge's cement division was offering more than 100 variations on its basic products and services to customers.

The process was labor-intensive for the sales force, and the execution required a lot of work for the entire company. And when we looked closely, it wasn't clear that these tailored offers had much impact at all on price, customer loyalty, or market share.

Did buyers really perceive value in all these options or simply see them as extra goodies?

Anecdotally, the sales force reported that customers seemed to like the extra attention. But did buyers really perceive value in all these options or simply see them as extra goodies?

In 2004, the cement division launched an initiative to change the sales process, which eventually led to the creation of Performance Innovations—a sales program based on the principles of value-based selling. Launched in the market at the end of 2005, this program aimed to narrow the range of options that salespeople presented to customers, but also make the options more relevant to each customer's needs.

The goal was to develop specific high-value offers that could generate greater value to customers and better returns for Lafarge—something equivalent to "value packages" that auto manufacturers offer to car buyers. At the same time, we didn't want to force customers into one-size-fits-all solutions.

The offers had to be relevant and resonant for each customer.

Identifying Currencies

At first, we had to identify all of the various "currencies" that Lafarge was offering to the market. The marketing team defined a currency as any product feature or service that customers might be willing to pay for. The marketing team reviewed the various customer action plans and determined that the sales force was offering 114 different currencies to customers.

The next step was to zero in on a manageable set of high-value currencies. This involved understanding (1) what products and services customers valued most, (2) what each currency cost Lafarge, and (3) how to communicate

to the customer the value impact on their bottom line with transparent and convincing data.

The marketing team worked closely with the sales force. By nature, salespeople tend to be suspicious of management initiatives, especially those that seem to limit their ability to deliver for their customers. Lafarge recognized that a top-down approach might be counter to getting buy in from its sales professionals. So management encouraged salespeople to play a key role in designing the program and helping to identify which services to offer. In addition, it made the process as transparent as possible to the sales force; the latter understood the cost of providing services and the value that these services added to Lafarge's bottom line.

We found many situations where the cost-to-value ratio was out of line. Some currencies were valuable to customers, but they cost too much to deliver. Some

were inexpensive to provide, but of low value.

For borderline cases, we conducted a "willingness to pay" analysis. Using a select group of existing customers, we began including a line item on live bids, offering one price for bare bones product and a higher price for product with certain currencies included. This approach allowed price testing without the risk of losing a bid on price, because price-sensitive customers could simply choose the lower bid.

The results were striking: Out of the initial 114 currencies, only 17 made the cut.

In one overall category of our offer called "product performance," we were able to eliminate several currencies from the customer value discussion. We had always discussed multiple attributes of product performance but never really focused on the ones that really drove value for our customers (and that we could substantially influence). There were product performance characteristics that ended up in the customer discussion, like Vicat set time and cube strengths—mortar and paste properties of the cement that our customers did not relate to. These cement properties, however, did not typically have a direct impact on performance characteristics of concrete and they simply clouded the discussion.

In the end, we narrowed in on the currencies of the product performance category that really mattered to the majority of our customers and that we could affect, namely the "strength" of the concrete, both early and final strength. This refers to the time it takes for the concrete to set up. The elimination of more than 15 currencies from our standard sales lexicon had a huge impact on narrowing the product performance value discussion with customers. This appeared to be one of those obvious "narrowing to offer" decisions, but for years we had not done the obvious.

We also considered a rewards program along the lines of an airline frequent-flyer program. Once again, customers showed little interest in earning "loyalty points" for buying Lafarge cement; they'd prefer to get a better price.

As these examples show, it's important to truly understand the cost-to-value ratio of currencies before offering them to customers. Consider, for example, what might have happened if Lafarge had launched the loyalty program. At first, we would have invested considerable time and resources to design and launch the program. Then, when customer response proved tepid, salespeople would be exhorted to work harder to get their customers to sign up. Perhaps new incentives would be offered to customers—"double points" or "special offers." In the end, customers would be happy to accept the rewards (though not happy enough to actually change their buying habits). Meanwhile, other manufacturers, alarmed at this new threat to their customers, might launch loyalty programs of their own, further eroding any unique benefit for Lafarge. In the end, the sales force would be left with the delicate task of telling customers that the program was being discontinued.

These kinds of missteps happen to companies all the time. They add real costs—but little in the way of real value for the buyer or seller.

Consider, by contrast, another currency that turned out to be more valuable than expected. When we first looked at a "sustainability" currency, we believed it would be of relatively low value to our customers. "Green building" practices were getting a lot of attention, but the prevailing wisdom was that contractors and concrete producers did not consider this of value.

Yet when we asked our customers about sustainable development, we got a big surprise. They were in fact interested in sustainable products and how to qualify for LEED credits.

(The Leadership in Energy and Environmental Design Green Building Rating System is a nationally accepted benchmark for the design, construction, and operation of green buildings from the U.S. Green Building Council.) More and more building projects require LEED certification—especially government-funded projects—and were looking to their materials suppliers for help in meeting the requirements.

But many of our customers told us they simply didn't have enough knowledge to bid successfully on LEED projects. Through these discussions, we saw a way to truly add value to our customers. If we could leverage our own technical expertise with LEED-accredited individuals, we could help our customers win these bids. As a result, we included "sustainable development" as one of the currencies that we offer to customers.

The Segmentation

Next, we looked at how we could package these currencies to maximize their value to customers. We segmented customers into categories and identified key currencies for each type:

- customers looking for very basic elements of our offer, oriented typically toward the product portion of our offer
- buyers that want more support from their cement suppliers, such as technical services, and perhaps desire a more extensive relationship beyond just purchasing product
- finally, those customers that have very strong in-house capabilities but might be interested in partnering with us on research and development, special construction projects, or even long-term supply arrangements

The sales and marketing team created a set of criteria that salespeople could use to apply a segmentation-based offer to create common bundles, which began to emerge in patterns from our pilot tests.

The Results

Today the sales force uses a short list of high-value currencies tailored to each customer segment. After consulting with a customer, the sales representatives use a computerized tool to combine select currencies into a highly targeted offer that they aligned with the customer's perception of value. Selling efficiency improved markedly as salespeople began to spend more time with customers on the right topics and less time on nonrelevant currencies.

But the biggest benefit of the Performance Innovations program isn't sales efficiency; it's the resonance it has had with customers. Even though we offer far fewer currencies than in the past, customers have welcomed the change.

We believe the reason for this is that customers are looking for vendors that understand their needs. Offering a long list of options to customers implies, "I don't really know what's important to you; you tell me." A shorter menu of high-value offers communicates a different message: "We understand you. We understand your business. And we know how to help."

Lafarge conducted a pilot program to assess the impact of the Performance Innovations program before rolling it out to the entire sales force. For accounts involved in the pilot program, here are some categories of the improvements we've experienced:

- Pricing improved 5%.
- Operating margins increased 20%.
- Customer costs decreased by more than 10%.

For the 2006 and 2007 period, the Performance Innovations program (which also involves other elements of value-based pricing and selling) is projected to contribute an incremental increase of 3%-4% in gross margin over 2005 results.

The program has yielded other benefits as well. It stimulates value-based

discussions between salespeople and customers. It allows Lafarge technical staff to focus resources on key services rather than fulfilling hundreds of ad hoc requests from the field. It improves the efficiency of marketing programs—for example, by standardizing sales literature and training around the offers. In addition, standardization makes it possible to analyze and refine offers based on consistent market feedback. This analysis was impossible with the ad hoc system.

It's About Value

To some extent, sellers offer customers lots of choices because they can. It's possible to run efficient and automated production lines where every

product is designed to an individual customer's specification. The same goes for service: These days, for example, CRM software makes it easier than ever to tailor every part of the customer's experience to the individual. The risk with CRM, of course, is that you increase the complexity and reduce the effectiveness of the customer interface process. We also offer choice because customers say they want it. And they do—up to a point. Our experience at Lafarge underscores the importance of finding where that point is.

Of course, nobody is suggesting a return to the good old days of the Model T. But in the end, choice is a tool for creating value. And sometimes the best

way to create more value is by managing choice. ■

Authors' Note: For an in-depth look at Lafarge's Performance Innovations program, please contact Stephen Meima, manager of marketing communications at Lafarge, at steve.meima@lafarge-na.com.

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