Market Differentiation: The Deciding Factor

If low price always wins, why should an organization’s market differentiation be important? And, isn’t it true that each of our top ten customers could buy at a lower price from another supplier if they had to? Well, why don’t they?

Market differentiation and “perceived customer value” are far more than “being different.” An organization’s market differentiation cuts to the heart of its value—to individual customers, and their customer’s organizations. I say “individual customers,” because an organization’s reputation, or perceived customer value, or market differentiation—tends to vary from one customer to the next. This observation underscores that a supplier should relentlessly gather and update its knowledge of its target customers’ needs, and strategic performance issues.

What an organization should work to develop are “central, customer communication themes” that support a central strategy for developing its market differentiation. Business-to-business strategies to support market differentiation are somewhat different from consumer products, where for Wendy’s, it was “Where’s the beef?” For Volvo, it is “passenger safety.” For business-to-business, it is “suppliers who win that make an economic contribution to their customers’ economic performance.”

Why and to Whom Are You Important?

One of the central issues we like to pursue in client customer surveys is, “To whom are we most important, and why?”

Answers to those two questions should provide profound, strategic senior management guidance for:

› Which customers and customer markets to pursue,
› Which customers and customer markets to avoid,
› Overarching business development strategy and differentiation, i.e., why the customers you want to pursue value you the most,
› Day-to-day pricing and capability offerings,
› Selection of suppliers,
› Education and training of company personnel, and even
› Self-promotion.

Just as all customer dollars entering a supplier’s workflow are not of equal value, all customers are not of equal value.

Purposeful, relentlessly updated company differentiation, which requires organizational strategy and day-to-day front line support, can over time have a profound effect on elevating an organization’s performance, long-term market position (and value), and bottom-line performance.

It naturally follows that the economic penalties for not focusing on and developing your company’s differentiation with your target customer markets are more severe and faster than ever before in our lifetimes. Customers today are more discreet and more demanding of their suppliers.

How Can You Differentiate Your Company?

Here are but a few examples of market-based differentiations that can differentiate one organization from another—in your customer’s eyes—for selecting suppliers. As you review the list, I suggest you use a discretionary filter in asking, “If I were a senior manager in a buyer organization, which combination of differentiation(s) from a supplier would be of more value to my organization’s performance?”
Reliability/strict standards of performance: In a world of compressed performance time frames, “integrity” is a word that has increased value for certain customers. Additionally, only a few supplier organizations seem to have unusually high, strict standards of performance that are adhered to by every employee, and by the supplier to that supplier. Such suppliers tend to pursue customers where non-compliance creates draconian economic penalties. Target customer market examples include lab testing, pharmaceuticals, and high-end financials. Note: successful suppliers also tend to be higher in their profit performance.

Source of education and training for new buyers: As a market trend, we see an increasing frequency in the number of new buyers. Such market activities tend to create opportunities for the proactive supplier. Buyers’ supervisors tend to support suppliers who reduce training requirements from the supervisor. Benefits to both organizations are significant from such programs. Yet, few graphic communication suppliers have “institutionalized” a new buyer education program.

Increases the customer’s revenue streams: Through the integration of mailing services, personalization, electronic workflow over the Internet, and fulfillment, graphic communication organizations are using their resources to increase customers’ revenues. If you were a member of the customer’s senior management team, wouldn’t you prefer (even demand) a supplier who has demonstrated capabilities to increase your revenues and customer development?

Increases customers’ productivity: Major corporate buyers often work to improve their overall productivity—through improvements from suppliers. Whether it’s lean manufacturing, improved customer manufacturing, or some other system for improved customer productivity (e.g., Internet-based information and ordering systems), suppliers with proven records for improving customers’ productivity are recognized for their value—beyond being required to have the low price.

Professional conduct of customer contact personnel: This is perhaps my personal favorite—and has nothing to do with size of supplier, or its equipment. A supplier can have personnel who are more courteous, knowledgeable, and professional in their conduct and systematically bring useful information to the buyer organization—such that this particular supplier becomes “the reference point” by which customer organizations evaluate other suppliers.

Technology expert/resource/collaboration: Software available today is not necessarily easier to use, and opportunities for creating value from a supplier through providing useful information—has many dimensions. Some suppliers encourage customers to call with software or file-management-type questions—and then share through their customer newsletters and training of customer contact people the types of questions that are asked. Other suppliers don’t want a customer of any design interrupting production personnel, who are paid by the hour. If your customers aren’t calling your organization with graphic solutions providers who win make an economic contribution to their clients’ economic performance. It’s a win-win situation for both the graphic solutions provider and the client.
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questions, whom among your competitors are they calling? It’s all about building perceived customer value, and supplier differentiation.

**Financial stability:** I find that organizations that remain in our great industry tend to be better financial performers. This quality can be of significant value to a customer—for improved predictability of supplier performance, and policy decisions.

**Confidentiality:** With sensitive databases being shared with suppliers, written procedures for ensuring the confidentiality of a customer’s work is increasingly strategic. We are observing suppliers who make this a leading edge issue for selecting major suppliers. Written standards may be required beyond customer relations—and include employees as well as suppliers.

**Demonstrated knowledge of the customer’s industry, business, and major projects:** Imagine that you are faced with selecting a central, long-term supplier from five that are available. All performance qualities among the five are similar (there are few poor suppliers still in existence today); however, one of the five suppliers clearly has demonstrated an intimate knowledge of your company, your industry, and the key project you are needing to award. This type of demonstrated knowledge from a potential supplier, tends to be the tie-breaker for awards. Interestingly, this quality cuts across all other performance boundaries—and tends to neutralize any potential leverage from larger competitors.

**Research and product development culture:** Only a few suppliers tend to have a culture that thrives on developing new products and services. Such suppliers tend to be highly valued by customer organizations whose target markets also require relentless innovation. We personally serve a label supplier and an envelope supplier who are regular developers of new products and services. They are both improving their revenue and profit streams, and are highly valued by ambitious customers, who want useful innovation from their suppliers.

**Gives back to our community:** On the customer survey, the respondent wrote, “Let us know of anything we can do to help your company.” This supplier, as a condition of employment, required all employees to commit 40 hours of volunteer time to the charitable organization of their choice, for which the company reimbursed the employee at their hourly rate. This information had become known in the non-profit customer base and, in effect, became an informal, compelling reason for non-profit buyers to select this supplier.

**Upper management contact/management-to-management relationships:** Senior management too often underestimates the power of personal contact—and trust. Do you receive higher prices? Probably not. Do you receive an edge at different times for keeping the work? Probably. We know of one client whose CFO makes contacts on an annual basis with his counterpart in each of his company’s top 20 customers. Predictably, there are situations that develop each year in which he receives a call that contains, in effect, the message, “George, we’ve got a problem that if you can address it quickly, I’m sure there won’t be any downstream damage.” (This is at the CFO-to-CFO level!)

**Ease of doing business/one-stop-shop:** Time compression is forcing buyers to select suppliers who can handle the whole package. Additionally, most buyer organizations do not want too many suppliers having access to sensitive information. Whoever handles the mailing may also have first refusal on storage and fulfillment and digital asset management. As Dick Vann, president of PostMark observed, “Database management and fulfillment have become strategic, print appears to increasingly be tactical.”

**Strong management systems focused on continuous improvement:** Major customers are being required to constantly improve and lower their production costs. It follows that they would require similar qualities in their consolidation of supplier process. Plant tours, RFI’s and RFQs can be expected to require demonstration of these qualities to certain types of high-profile customers.

**Develop An Effective Market-Based Strategy**

I suspect some of us would want most all of these qualities in our organization’s culture. Yet, limited resources dictate that all these qualities are not attainable to meaningful levels. Additionally, not all of our customers make supplier decisions based on this entire list. Knowing what you are recognized for—that’s valued, and stands out relative to your competition—should provide an edge for developing an effective, market-based strategy to pursue.

We can’t be all things to all people, nor should we try. Knowing who we are already most valuable to—and why—is the start for understanding the market-based differentiation that already exists and sits waiting for us to further develop. Otherwise, we’re just chasing more dollars, and that’s neither an effective strategy, nor a formula for anything other than minimal survival.

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