

# Becoming a value based marketer

**Phil Allen of MarketAbility continues his series with a challenging recommendation to value based marketers — devote more attention to price.** This does not mean crudely cutting prices, as he explains



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**F**or many in the construction industry marketing is something of a black art, with little or no scientific substance, unclear processes and concepts – and that's just what the marketers themselves think about it! In this article, I'd like to try and shed some light on the true substance and value of marketing to the construction industry. Let's just start by examining the word "MARKETING", which suggests that it is about "MARKETS" or perhaps "GETTING TO MARKETS". But what is a "MARKET"? And how do I "GET TO A MARKET"?

A market is a group of customers who have a need for certain products and services which provide a valued benefit to them and for which they are prepared to pay a certain amount of money, based upon the value of the benefit they derive from the product(s) and service(s). This amount is generally reflected in the price of the products and services. So the size of a market in monetary terms is equivalent to the number of customers with a need times the value they put on receiving that benefit. Not so very complicated.

But why is it then that so many construction marketers struggle? Well, they fail to define markets in this way. The construction marketer sees the market as an aggregate of sales of products by her/him and her/his competitors.

This is the starting point for the errors of thinking and judgement that pervade the commercial corridors of this industry – a

totally false premise as a basis for all the business and marketing strategising and tacticking. So perhaps it is no wonder that the industry is not doing so well in its markets just now and perhaps it is a wonder that the industry has ever been very successful in its markets, which has been maybe a matter more of luck than good strategy and judgement.

Markets are NOT about products, markets are about CUSTOMERS. Customers who have a need that can be fulfilled by a construction product delivered in a certain form and quantity, applied in a certain manner developed and applied by a reliable supplier in collaboration and co-operation with that customer. The customer is prepared to pay a certain price for the product/service/solution provided by the supplier, based on the value to her/him of the benefit derived. Actually, we can develop a simple formula for this customer value:  $CV = DB/RC$ , where CV is Customer Value, DB is Desired Benefit and RC is Relative Costs. CV quantifies what the customer gets divided by what the customer has to give up to get it. A desired benefit is something the customer really wants, something that matters to them and for which they're willing to pay. Relative Costs is more than price. Cost is what the customer has to give up to acquire the Desired Benefits derived from your products or services, which is more than just the price of the product or service. The formula is a

ratio, rather than a simple subtraction, because the purchasing decision by the customer is a trade-off.

A product or service is perceived to have value when the customer perceives the value ratio to be  $>1.0/1.0$ . This value really does make a difference to the customer, and so it is more likely to prompt a buying decision. If the ratio is  $<1.0/1.0$ , then you haven't created value or the perception of value for the customer. To increase a value ratio, you have to either increase the Desired Benefits and/or decrease the Relative Costs.

Buyers of the same product will have different value ratios. The designer, developer or builder of an owner-occupied prestige office or shopping development is more focused on the Desired Benefits component of the value ratio and is less concerned about the Relative Costs. Conversely, the designer, developer or builder of a speculative rental scheme is likely to be more of a price buyer.

But for true marketers, a price buyer is a value buyer. For a price buyer, price is an important value driver and is a big component of the Relative Costs denominator in the value ratio. The price buyer sees no differentiation in physical product nor in the basic services of each supplier. Typically, price buyers are sophisticated and knowledgeable users of what they are buying and they can acquire the same product and basic service from a number of equally reliable suppliers. If these customers are chosen as target customers to pursue, the challenge becomes forming the organisation's processes, resources and people to serve them profitably. Actually pure price buyers are very rare, and this is the true challenge of the value-based marketer in the construction industry. Even in some large markets for undifferentiated products, we can discover new value drivers for what were regarded as "Lowest Price Buyers." For example, a need for guaranteed security of supply or the ease of doing business can be more valuable to such customers than pure lowest price, which raises an issue worth discussing.

In the customer value ratio, price is just one factor of Relative Costs. This means that, rather than thinking of price in terms

of supplier costs plus margin, value-based marketers perceive price in terms of value to the customer. The more value you deliver in terms of Desired Benefits to Relative Costs, the more price is impacted. The less value you deliver, the more price is commoditised. If you can't establish a positive value ratio for the customer in any aspect of the offering, price is irrelevant. Instead, you must challenge whether that element of the offering is relevant or appropriate.

As customers' needs change over time, you must either make regular checks with customers to maintain your understanding of their value set and how that affects price or you must proactively develop new value offerings based upon your knowledge and insights about your customers.

So how can you become a value-based marketer? In any market segment and to any customer there is a lowest price offering. In understanding and setting price, start with this offer, as this is the low-point benchmark against which to compare and contrast your offering. Once you've described the lowest price offering, you need to be able to build a logic and an argument to justify the scale of difference in your price compared to that low point. Then determine how the customer benefits from additional elements of your offering and quantify what those elements are worth to the customer.

Every customer value segment has specific elements of its value set which – if fulfilled – will attract a non-price-sensitive response. The key is to identify these elements. This forms the basis of your pricing decision and your price argument/justification.

Most marketers give far too little attention to the Price "P" of the marketing mix and this is one of the main reasons why they give marketing a bad name and a bad reputation in the company. Of the 4 traditional "P's" (Product, Place, Promotion, Price) and the modern 7 "P's" (Product, Place, Promotion, Price, People, Process, Physical Evidence), there is no escaping the fact the price is the ONLY value-creating and value-capturing "P" in the marketing mix.

So my advice to all you construction marketers out there is to spend a bit more of your valuable time on Price if you want

to be a value-based marketer. When I say spend more time on Price, I don't mean reacting to buyers' pressures to drop the price or competitors' price cutting. Spending more time on price means:-

- Spend more time to understand the true value of your offering to your customers and reflecting that in your price to them.
- Spend more time working out how to fulfil the unmet needs of your customers and reflecting the benefits they derive from that need fulfilment in your price to them.
- Spend more time working out how and why your offering is different from and better than the competitor offering – NOTE I am using the word OFFERING, not product.

Every offering consists of PRODUCT BENEFITS + SERVICE BENEFITS + INTANGIBLE BENEFITS which add up to a total customer value which should be reflected in the price.

If you cannot make your product look better to your customer, than you have to make the offering look better some other way.

If the product and the service are the same as the competition, than you have to seek some intangible benefits (such as trust or relationship or brand image).

If you cannot make the combined offering of products, services and intangible benefits look different and better than your competitors' offerings, then you must re-define the market.

Re-defining the market is a bigger challenge, but has been achieved also in the construction industry.

ICI Nobel Explosives redefined their explosives business to quarries as "right-sized stones" and transformed it into a profitable business again (for more information there is an IMD case study describing the story).

So, if you think marketing is a lot of mumbo-jumbo and vague utterings about products, supply chains and promotions, think again or get a new job. There's a lot more to marketing than meets the eye and a lot more profitability to be made with value-based marketing applied to construction businesses.