EXTENDING THE PRODUCT LIFE CYCLE IN SPECIALTY CHEMICALS

New product development has been identified by industry leaders as the most important opportunity for embedding value-based strategy to maximize customer value and profit.[1] However, leading companies continue to face key challenges, including the commoditization of products, intense price competition, rising input costs, and relentless pressure from powerful procurement groups. To deal with these challenges, product development must adopt an approach that: a) incorporates a value-based pricing mindset; b) taps into the enterprise's expertise across functional silos; c) validates differential value using customer input; and d) uses dynamic models to fine-tune unique customer value propositions.

CASE STUDY: CHEMICAL MATERIALS

One case example we used to illustrate these best practices in action involved a chemical materials manufacturer that sold to large OEMs.[2] As you'd expect, this manufacturer faced relentless pressure when dealing with B2B procurement department buyers. This is an extremely challenging environment to execute a value-based pricing strategy because of the laser-beam focus of procurement to reduce per unit costs. For them, the logic is brutally simple: "Reduce the cost of your material inputs, year after year. Or else."

This challenge was evident when one of the largest of the manufacturer's OEM customers recently issued a major request for proposal (RFP). Here was a significant multi-year revenue opportunity. The manufacturer then faced a common dilemma – how much value would they need to give away in order to win this important business?

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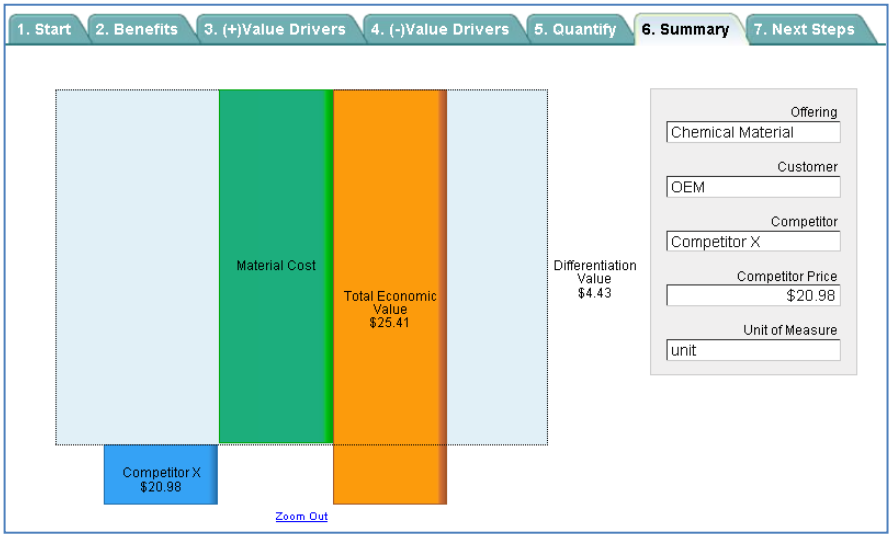
Fortunately, the product development team succeeded in reformulating one of its products to deliver a new performance benefit – 20% less material use. This seemed to be a very clear-cut value driver that procurement would embrace. Yet in spite of this innovation, the team had misgivings. How much of this value would procurement simply demand for itself? What if less efficient competitors responded aggressively by cutting their prices? In the worst case scenario, the manufacturer would be unable to recoup its investment in this new innovation. In other words, a potential win-win innovation would turn into a win-loss.

[1] For another case study, see Improving the Value Proposition for New Products

[2] Detailed information has been changed to protect customer confidentiality.

The initial value model which was created using our LeveragePoint application is shown below. The economic value of the 20% reduction of material usage is represented by the green bar labeled "material cost" savings. This model clearly illustrates the positive economic or differential value of this benefit as measured by the OEM's cost per unit. Needless to say, many companies in this situation would be quite happy with this result. Given the strategic importance of this RFP opportunity and competitive/procurement risk, however, the materials manufacturer felt the urgency to make an even stronger economic case.



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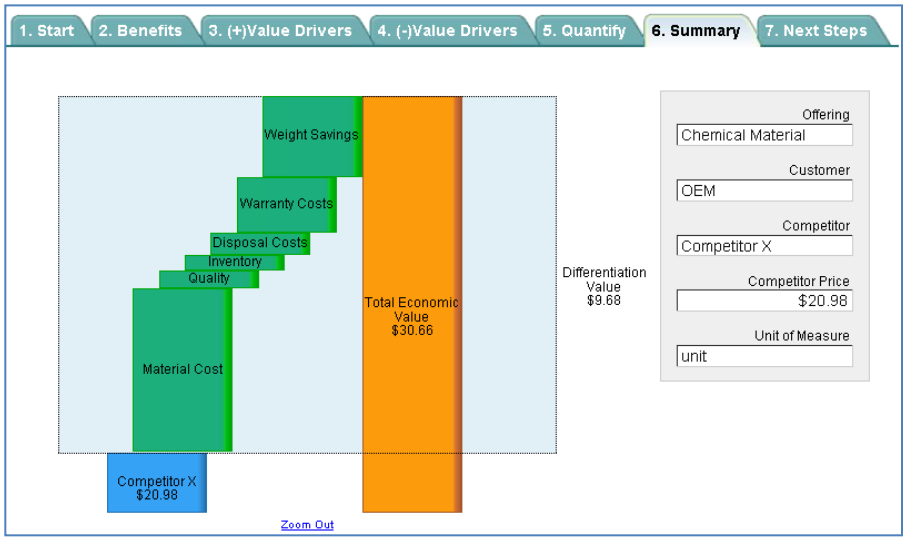
To accomplish this, the materials manufacturer product team utilized an often overlooked capability: its own deep knowledge of the OEM's operation. Their technical sales reps were already present on the OEM's plant floor to support their other products. By tapping into that knowledge, the team was able to identify and quantify additional value drivers.

They quickly learned that the new formulation provided much more value beyond the obvious savings in direct material cost. For example, it delivered better quality during the application process; that meant the OEM needed less labor to check and reapply material on the production line. Next, they deduced that less material usage directly translates into less materials inventory – over a long production cycle that can add up to a significant savings in working capital. Another operational impact was a reduction in waste disposal costs (again a function of material usage) which is paid to a third-party service by the pound, and perhaps even reduced the risk of a future and costly environmental issue.

The search for value drivers went outside the OEM's factory walls, too. The team uncovered a link between their material performance to after-market defect incidents, which are directly tied to warranty claim costs. Finally, in what perhaps is the most out-of-the-box, yet defensible value driver uncovered, the team quantified the benefit of weight loss (again because of less material used) in the final product. Given that weight-savings is an important performance factor for the OEM, the case can be made that it could increase their own revenue, either in market share or pricing. Of course, the quantification of this value driver is debatable, yet it unarguably supports the OEM's product improvement.

The cumulative effect of all this value is shown below. By thinking more broadly about value drivers both within the OEM's assembly line, as well as the impact outside on the performance of the end product itself, the materials manufacturer was able to double the amount of quantified differential value.



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During subsequent meetings with procurement, the sales team was able to educate them on the real value of their materials, making it a "no brainer" decision. Even when faced with lower prices from competitors, it was very difficult to turn down this value case. Now the discussion was not just with procurement, but among other functional stakeholders who were touched by a piece of this value story. The result was that the manufacturer was able to hold their price and to secure the business.

ABOUT LEVERAGEPOINT

LeveragePoint – the software solution for **VALUE-BASED PRICING**

The LeveragePoint platform enables everyone in your organization to collaborate and align around the economic value you deliver to your customer's bottom line – quantifying what truly differentiates you from your competition. LeveragePoint helps product development and pricing set value-based prices; and helps marketing and sales communicate a value story that wins the price negotiation, shortens sales cycles, and captures wider margins.

And, as a SaaS (Software-as-a-Service) solution, LeveragePoint can be deployed quickly to deliver measurable business impacts within weeks.

CONTACT US

35 Medford St, Suite 301
Somerville, MA 02143
(617) 945 – 7075
info@leveragepoint.com | www.leveragepoint.com