BusinessPlus+ Newsletter

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Issue – November 2020

Create Value for Customers – What does that really mean?

Create Value for the Customer means that every aspect of an organisation should be focused on creating value for the customer. It is helpful to consider this a "true north" concept that should guide decision-making and continuous improvement. An organisation needs to drive all aspects of value, including quality, cost, delivery, safety, and morale.

Many organisations assume that customer surveys tell them what their customers truly value. However, this approach has its limitations, and it's important to understand the difference between customer satisfaction and customer value as they are not the same thing. Customer satisfaction is essential, and unless it is met, we are unlikely to be able to have meaningful discussions about value. One way to look at this is that customer satisfaction looks backwards, i.e., it tells us how well we are doing against things we already do. Customer value, on the other hand, should look at what customers potentially value from us in the future.

A deep understanding of both customer satisfaction and customer value is critical to drive business excellence and innovation. It is important to link the understanding of customer value to strategy and have a system that deploys the understanding of customer value throughout the organisation.

The best assumption that one can make about customer value is that you don't know what it is. Too often we impose our own perspective of what the customer values only to find that they value something completely different. An example of the difficulty of understanding customer value is that standard terms are often interpreted in very different ways. One such example is "response time." For some people, a response time of 24 hours is fine; for others, it may be a couple of days. For some people, it might be less than one hour. It may even depend on the type of communication (e.g., phone, email, etc.) and/or the type of issue requiring a response. But what's true every time is that the response time requirement will be an expectation by the customer. Often it might not even be explained—they will expect you to know. The only way to find out for sure is to talk to them.

A useful tool to consider understanding value is sometimes called the "customer value proposition." In other words, have we clearly defined what it is the customers really value from the product or service we are providing? The customer value proposition is a good way to summarise what the customer really values into a simple high-level statement. The key to making this work is that it can only be constructed as a result of discussion with the customer. It should never be written assuming we know what the customer values. Ideally, it is jointly drafted with the customer, and as a minimum, it is signed off by them. It can then be used to inform metrics and targets and decision making.

Good practice is to have it on prominent display on the teams' visual management board.

The customer value proposition needs to be constantly reviewed with the customer as their expectations, and hence what they value, will change rapidly over time. As such, we need to develop systems that not only capture the voice of

the customer but have mechanisms that take feedback and make constant adjustments to the way we understand and take actions informed by customer value.

Who Is Our Customer?

A good question for any team and even every individual to ask themselves is: "Who is our customer?"

Although the traditional view of customers as end users, or as a chain of immediate recipients of a product or service en-route toward an end user, may be appropriate in some contexts, this view is often too narrow. The concept of customers may be expanded to include multiple relevant stakeholders that may span the supply and value chains and beyond. This view will address the needs, wants, and sensitivities of producers or providers; users, consumers, or recipients of products and services; and those directly or indirectly impacted by the manufacture, distribution, use, or provision of a product or service including individuals, civil society, policy makers, and the natural environment. This view requires a balancing of stakeholder considerations and is consistent with increasing expectations that enterprises should be both socially and environmentally responsible.

What Do We See When This Principle Is Applied?

Organisations that create value for their customers grow, and usually very successfully. It is possible to continue in the short- to medium-term not providing value, but growth is very unlikely, and it is not sustainable over the long-term. Eventually, any organisation that does not create value will cease to exist.

Some negative examples that can be observed when this principle is not applied include:

- High churn on customers with few repeat sales
- Negative customer reviews
- Low staff morale due to level of customer complaints
- A shrinking business
- A constant focus on cost-cutting

Where this principle is applied, we see the opposite of all the above, but in addition, some of the positive consequences are:

- Business growth with long-term customers
- Customers are advocates for the organisation
- Employees have pride in the business
- The organisation has a great reputation and strong brand

What is Customer Value?

According to Womack and Jones (Lean Thinking, 1996) the first Lean principle is to understand what customers value. At first, this may seem an obvious start point for any organisation wishing to be successful in whatever products or services they are seeking to supply. However, it is often overlooked, with organisations assuming they know what customers value.

True customer value can only be understood by using a structured dialogue that focuses discussion on the future rather than just assessing historical performance. This model helps explain why every organisation needs to embed a culture of continuous improvement focused on customer value. Without this, the organisation cannot thrive in the long-term, as their offerings become out-of-date.

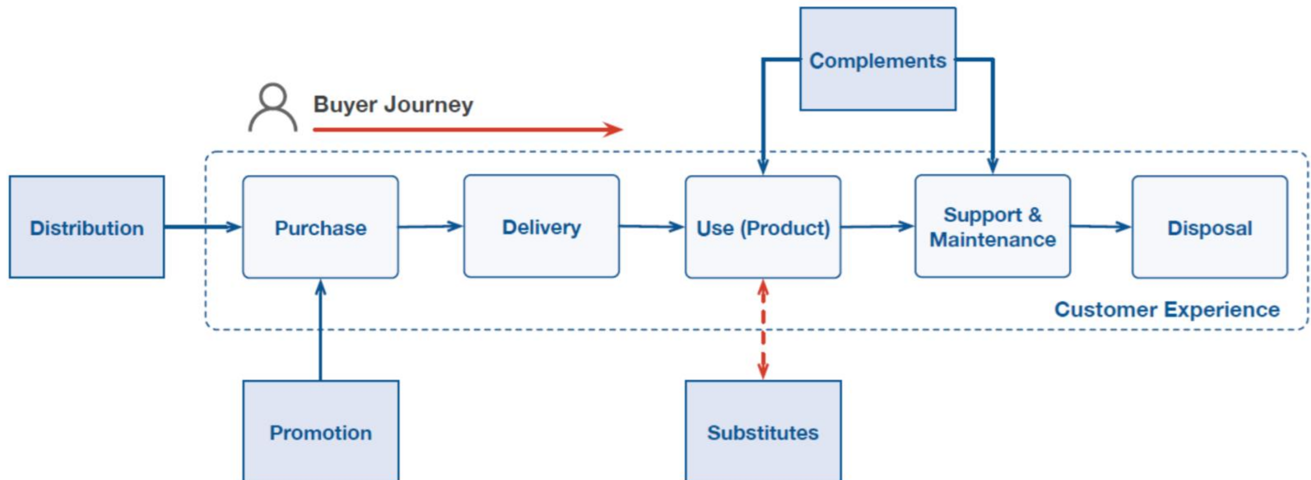
Increasingly, customer value is being referred to as "The Voice of Customer" (**VOC**), and to truly understand the VOC, organisations need to engage in a structured dialogue rather than rely on static surveys.

The VOC approach follows several key steps:

- *Determine who the strategically important customers are to grow business within the future.*
- *Identify the key stakeholders in those customers whose views on value are essential to understand.*
- *Undertake structured interviews with the key stakeholders using trained personnel to determine the vital few value criteria.*
- *Get insight from the customer on how current performance compares to their expectations against the value criteria they have said is important.*

- *Get insight into how the supplier compares to competitors against the value criteria.*
- *Get insight into how the supplier compares to the customer's best suppliers.*
- *Collate and analyse the feedback.*
- *Build action plans to address the areas of opportunity and agree on review dates with the customer.*

It is often a very useful exercise to get a range of managers in an organisation to determine what they think their customers value and rate themselves against the criteria they have set. In many cases, it quickly becomes apparent to the managers that they are guessing. Comparing the actual feedback from the customer insight process to what the managers initially thought can be very enlightening for the management team.



To maximize the value you extract from an opportunity, you must review the entire cycle of customers' interactions with your product

Summary questions for any team to consider:

1) ***Who is our customer?***
2) ***How do we ensure we know what they value?***
3) ***How to measure what they value?***
4) ***How do we continuously improve to deliver ever greater value?***

The Fundamentals of Business Strategy

If a Business Owner(s) does nothing else but protect a company's earnings from erosion and grow those earnings at the same level or even higher than other high-performing companies (not only industry competitors), most people would agree that the business operator/owner has done a great job.

It is for that reason that before thinking about new products, growth, innovation or the latest management trend, **the first order of business for any business owner is a plan to protect the cash generated by the company's operating business, and to do that, they must ensure that it occupies a market position that is both profitable AND defendable.**

A profitable market position will not be sustainable unless it is to some extent difficult to imitate or "defendable", while a defendable position that is not profitable is just a distraction. The only way a business can find such a market position is by doing things differently from its competitors. In plain English, that means that your company's products and services must either serve different needs than competing alternatives or serve the same needs in different ways.

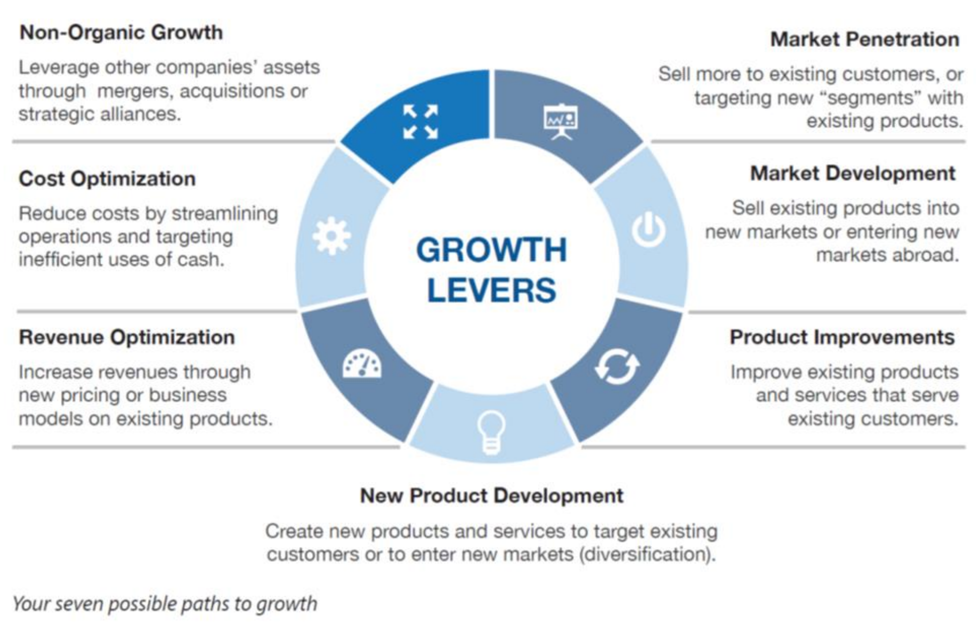
When well executed, this positioning strategy is manifested through differentiated products and services, lower prices than competing alternatives, or a combination of both.

With your core businesses under control, the next step is exploring ways to maximise growth, and to do that, consider the following seven different ways that work in any business:

1) **Market Penetration:** Selling more of your existing products to your existing consumers or targeting new consumer "segments" within the same markets.

2) **Market Development:** Selling your existing products to new markets or to new markets internationally.
3) **Product Improvement:** Improving your products and services that serve existing customers.

4) **Product Development:** Creating new products and services to target existing customers or to enter new markets (which would qualify as some type of diversification move).
5) **Revenue Optimisation:** Increasing revenues through the implementation of alternative pricing options or new business models for your existing products.
6) **Cost Optimisation:** Reducing costs through the optimisation of the business's cost centres, by streamlining operations or eliminating inefficient uses of cash.
7) **Inorganic Growth:** Leveraging other companies' assets through synergistic mergers, acquisitions or strategic alliances.



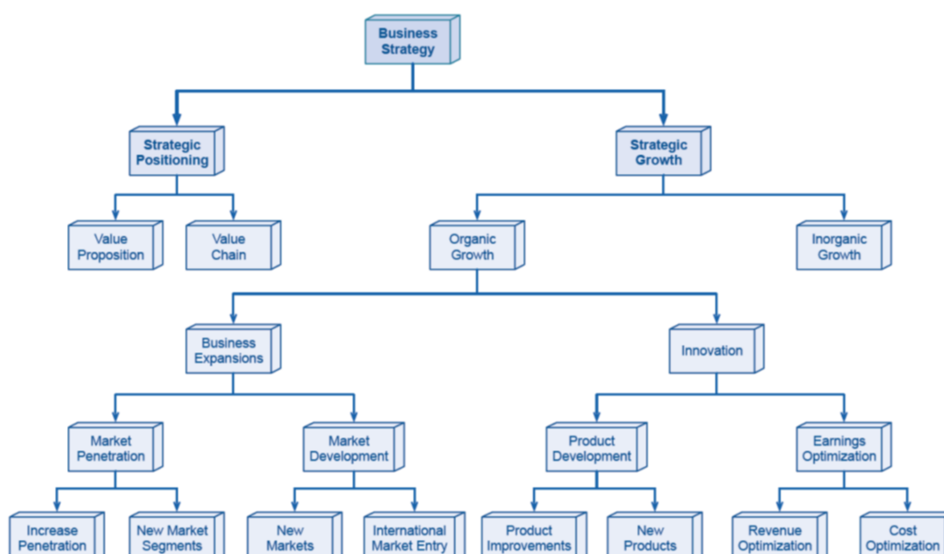
Your seven possible paths to growth

One of your key roles as a company operator is to explore how this list relates to your organisation and then to make educated decisions about which paths you believe would deliver the most positive impacts to your bottom line.

We have put all these options together into a single diagram (below) to help simplify the decision-making process for the business owner.

You can look at this template and see a visual representation of the strategic choices you have to make when developing a new strategy. Now, if you've been around long enough in the business arena, you know one thing about strategy: getting it right is one thing, but getting it done quite another.

To "systematically" get strategy implementation right, business operators must master two core disciplines: Capital Allocation and Execution. Without those two disciplines being well rooted in its DNA, your organisation is at risk of not hitting its strategic goals or derailing from the desired targets.



Five Common Strategy Mistakes

You've probably heard the statistic - that over 70% of adopted strategies in organisations fail. In this article we're going to dive into the five most common strategy mistakes made by business. This list of common strategy mistakes includes mistakes in both the planning and execution phases.

Front-Loading Your Strategy

We've all been there...You come up with an awesome new strategic direction for your company. You arrange a strategy off-site with your team and write down this awesome plan of action. Then....it all fizzles out within a few weeks and you're back to square one. This happens when organisations put all of their strategic energy into ideation leaving nothing behind for the long, hard execution phase. **A successful strategy builds slowly over time, and eases into becoming 'business as usual'. That means being pragmatic about the start dates for the goals in your plan and allowing yourself time and space to finish the things you're currently working on.**

Ignoring Culture

While smart ideas and dynamic strategies are great - they're worthless without the right mechanism to implement them. That mechanism is your people – from the head office to the front line. If the culture of the organization is not conducive to engagement and transparency, implementing any strategy is going to be an uphill struggle. You won't get live feedback on what's working and what's not - and the chances of your strategy truly delivering are going to be pretty slim. Make an honest assessment of your organisation's culture. Ask yourself questions like:

Do my people feel comfortable telling me when things aren't working?
Is my plan all my own work, or has it been informed by debate and engagement with my staff?

Take the time to address any cultural deficit you might perceive, before you embark on any kind of major strategic change.

Relying on Others to Tell You What to Do

Millions if not billions of dollars are spent on third party consultants - and often that spend relates to helping organisations with their strategies. Consultants most definitely have a valuable role to play in this regard - but good consultants will be those that help YOU come up with your own strategy - rather than doing it for you. No-one knows your business like you do - and no-one is better placed to know what will work with your people, than you and your trusted team of internal colleagues. If you're working with consultants, ask them the right questions. They can be great for helping you to find frameworks, methodologies and tools to create and execute strategy. But they shouldn't be telling you to directly what to do. Use your own people and your own experiences for that.

Thinking That 'Revenue Growth' Is a Strategy

Number four on our list of common strategy mistakes involves the actual content of your strategy. So many strategic plans have top-line goals related to growth. 'Be a million $ company'. 'Triple our revenues'. Growth isn't a strategy! Everyone wants to grow! Growth is the thing that happens when you successfully implement a strategy. **The strategy itself needs to be far more specific about exactly how your company, with your particular strengths, weaknesses and opportunities will thrive.**

There's nothing wrong with including ambitious financial KPIs in your strategic plan. But these form one of the measures of success rather than one of the top line focus areas or organizational goals.

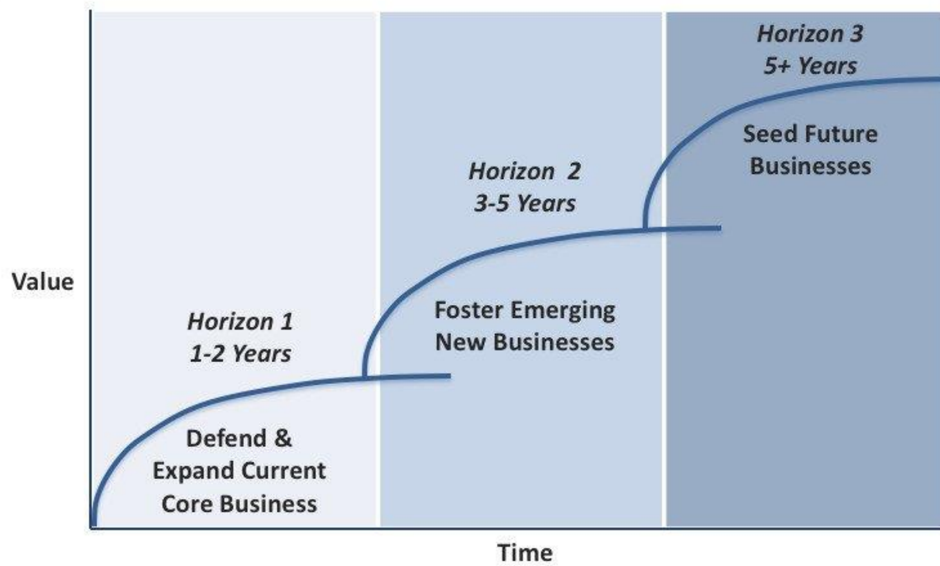
Over-Complicating Strategy

You can spend a great deal of time and money on building complex strategy models and frameworks. They certainly have a place in helping to shape your thinking - **but strategy in essence is extremely simple.**

What do we need to do? How do we do it? Are we doing it?

There's nothing wrong with having some frameworks in place. But make sure that they're simple enough for everyone to understand. The moment that a strategy becomes complex and elitist, is the moment it can no longer succeed. At the absolute most, we recommend no more than two dimensions for framing your strategy.

One favourite framework tool to use is **McKinsey's Strategic Horizons** - it's simple, everyone understands it AND it makes you consider critical aspects of strategy that will help you succeed in both the short and longer terms.



The McKinsey's Three (Strategic) Horizons of Growth model can form part of your strategic plan. **This model forces you to balance your goals between the three business horizons of:**

- ***Revenue from business as usual (around 70% of your effort)***
- ***Focus on broadening your revenue streams (around 20% of your effort)***
- ***Focus on exploring entirely new revenue streams (around 10% of your effort)***

In Summary

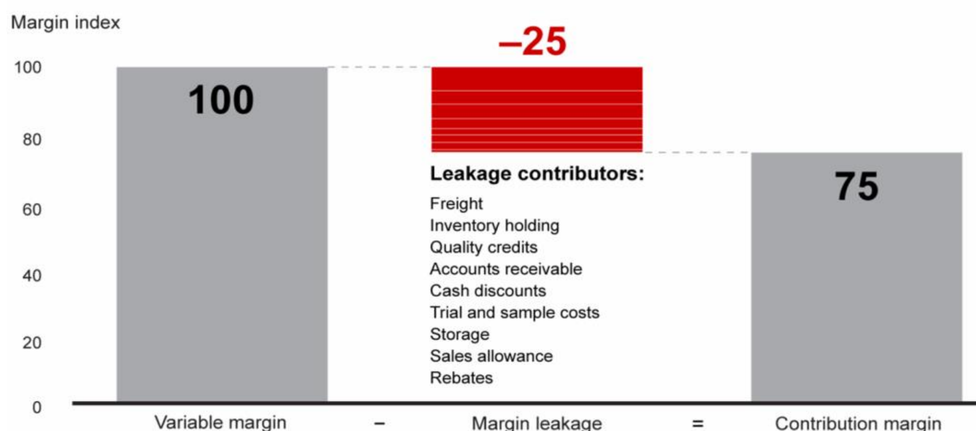
In addition to our list of common strategy mistakes - the one other thing piece of advice **- is to never underestimate the *importance of your people* in strategic change. As the leader of strategy - you are the catalyst of change - but it's the people of the organisation that will carry your vision and turn it into reality**. Yet so often, human psychology is an afterthought to the planning process, rather than a foundation. Keeping this one fact at the forefront of your mind will help you to avoid not just the common strategy mistakes outlined above - but many more as well.

Some Pricing Principles in a Business as Unusual World

Given all the disruption and change this year, challenging your commercial organisation's go-to-market strategy is a totally reasonable endeavour. **The big questions are:**

Should you change your pricing models to accommodate the changing landscape?
If you do, how?

The answer, of course, is entirely dependent on the industry, the company, and, ultimately, the customer. However, a few core pricing principles never change, even if the world does.



Pricing Principles You Can Always Depend On

1) **Build Your Pricing Strategy Based on Your Customer's Perspective:**
While it's tempting to begin by assessing your company's finances, organisations thinking about price changes must invest in concrete customer research to better understand their customers' behaviour and uncover what they value (both now and in the future). Focusing on your customer first will help you make far better decisions when you start incorporating profitability or other business metrics. It may sound simple, but most companies focus on their needs first, ultimately leading to poor choices and unintended consequences.

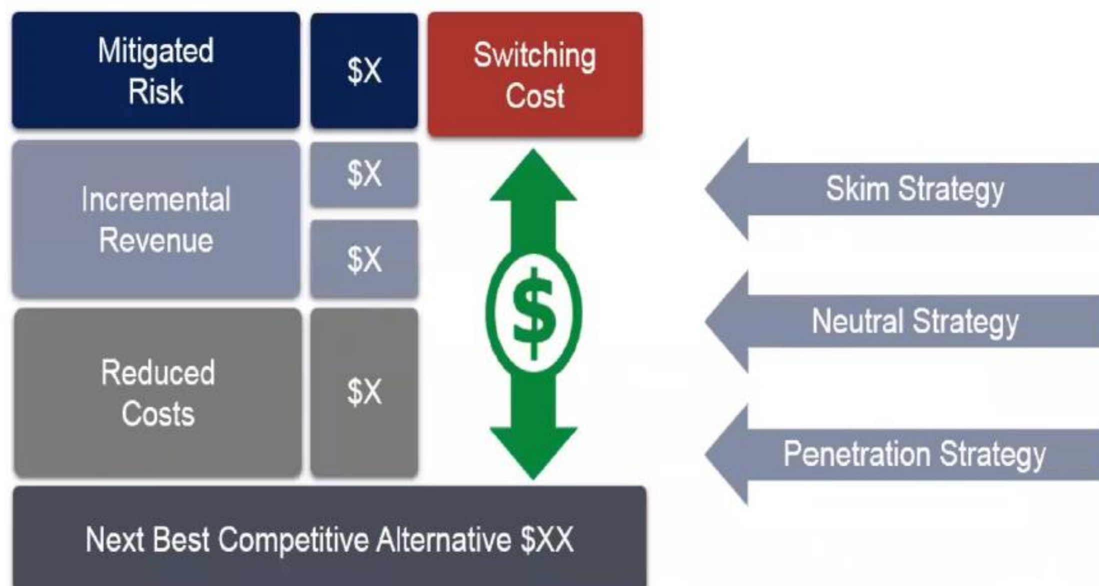
2) **Be Specific When Segmenting Your Customers**:
If you invest in understanding your customers' behaviour, you will begin to identify what they truly need. The next step is to invest in targeted analytics to better track and understand your customers' actions based on the needs you identify. Many companies tend to rely on traditional means of segmentation, but that often leads to grouping dissimilar customers into the same categories. With the right set of data, you have the ability to apply a level of specificity — **called cohort analysis** — to group customers into more targeted micro-segments. These micro-segments create an audience for more specific, targeted customer conversations which result in actionable decisions instead of high-level theories.

3) **Be Flexible:**
Because accommodating a niche market or servicing a narrow vertical one can be the most profitable business you produce for the entire year, it is important to remain flexible, especially when the world is in crisis. After you successfully integrate cohort analysis into your pricing process, you need to make swift changes and provide your sales team with the flexibility to respond accordingly. That might mean significant change, but it is better to serve the needs of your customer than it is to try and retrofit an outdated model.

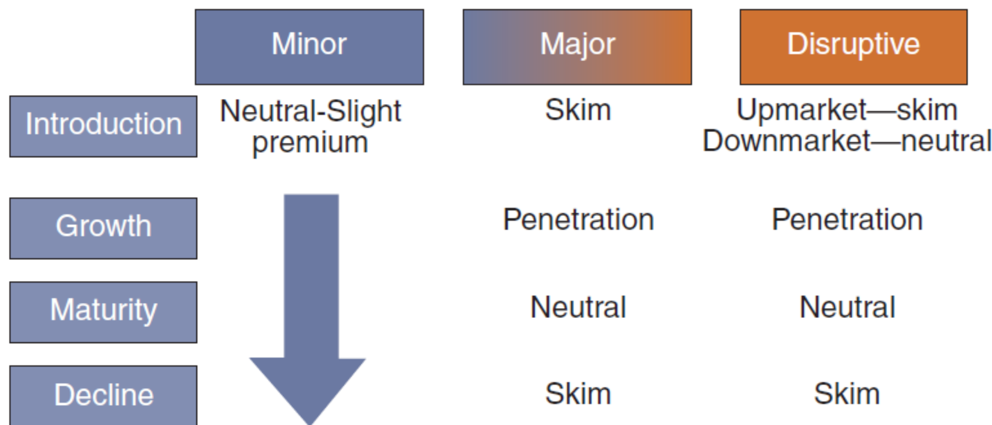
Differentiated Pricing

Can your business offer two or three pricing options for the same product or service that are differentiated perhaps as follows and as shown in the diagram below: –

- **Highest Price**: Higher level of product or service offering that provide clear distinctions from the other two price points;
- **Medium Price:** A more normal product or service offering without all the extras, but still a quality product/service;
- **Generic Price**: This is the minimal "no-fuss" offering for the solely price sensitive buyer of a particular product or service;



In disruptive times like these, the best use of time and resources is in understanding your customer base better than you ever have before. Invest in better customer research, better customer conversations, and better tools to help your teams make more informed decisions.



New WA Assistance for Eligible Food Manufacturers

The Department of Primary Industries and Regional Development (DPIRD) has established the WA Agrifood and Beverage Voucher Program ('AFB Voucher Program') to support eligible Small to Medium Enterprises (SMEs) operating in Western Australia to:

- increase jobs;
- facilitate growth, diversification and expansion domestically and internationally through the provision of expert advice; and,
- research technological solutions to improve efficiency and resolve digital problems;

For the purposes of this program, an eligible SME is defined as having an annual sales turnover of between $100k and $50m for regional and $200K and $50m for metropolitan businesses and 200 or fewer employees.

A maximum of $700k is available in this round of the program, which is funded from Royalties for Regions funds (up to $400k) and Central Funds (up to $300k).

The Voucher Program is offered on a competitive application basis **in the following eight categories: -**

i. Business Planning (e.g. business evaluation/plan);
ii. Quality Assurance (e.g. quality planning, QA certification and HACCP plans);
iii. Market Positioning (e.g. marketing plan, competitor analysis; market segmentation; customer insights; branding; and packaging design);
iv. E-Commerce Planning (e.g. expert ecommerce strategy development, including Online-to-Offline (O2O) commerce, platform and domain evaluation and selection, online store design, checkout experience design, search engine optimisation, online marketing plan and analytics);
v. Technology and Digital Advisory (e.g. expert evaluation and compatibility/integration planning of automation opportunities, e-commerce platform planning, supply chain security planning);
vi. Export Capability Development (e.g. export market identification and prioritization; competitor and product analysis; development of pricing strategies; country specific labelling and packaging requirements);
vii. Technical Expertise (e.g. food scientist advisory; waste management planning);
viii. Planning for Investment (e.g. structure for capital raising, financial projections, investment memorandum, pitch decks); and
ix. Transitioning to Manufacturing (e.g. prefeasibility studies, business planning, product development or organizational design work for manufacturing lines building on existing primary production of food).

For complete details on new State Government assistance that manufacturers can apply for now (but closing soon on 11 December 2020), please click on the following link HERE.

Win for Small Business - “Loaded Contracts” Crackdown

The Federal government has announced that big business will face new fines and penalties for entering into unfair contracts with consumers and small businesses, under a crackdown agreed to by the Federal and State governments.

This shakeup is aimed at stopping big business squeezing small business partners, such as through changing supply contracts without approvals, suddenly terminating contracts and the auto-renewal of contracts without an agreement and enforcing long lead times to cancel.

The government originally extended an unfair contract term protection for consumers to small business in 2016.

However, the law only allows big businesses to be taken to court to have the relevant terms declared unfair and void. Even if the contract term is proven to be unfair, it is not illegal and there is no penalty to big business.

The Small Business Ombudsman, Kate Carnell, has pressed the government to make unfair contract terms between big and small businesses illegal and subject to penalties. The governments have agreed to strengthen unfair contract term protections.

The shakeup will include making unfair terms unlawful and giving courts the power to impose a civil penalty.

The definition of small business will be expanded from less than 20 employees to less than 100 employees, with an annual turnover test of less than $10 million.

The government’s Small Business Ombudsman has indicated that the new small business thresholds would ensure 99% of businesses were covered by the tougher unfair contract rules.

COVID-19 Grants to be Income Tax Free

In a major change to government policies the Federal government has introduced legislation into parliament that provides for small and medium size business grants, announced on or after 13th September 2020, to be non-assessable, non-exempt income.

Normally, income received by a taxpayer from a government grant is included as assessable income for the recipient.

This change will apply to certain grant programs administered by a State or Territory governments where payments will be treated as non-assessable, non-exempt income so that these payments are not subject to income tax levied by the Commonwealth government.

This grant exemption will only apply to entities with aggregated turnover of less than $50 million per annum.

To be eligible, a business must have received a payment that was made under a Grant program, that is declared by the responsible Cabinet Minister to be eligible for this dispensation and is, in effect, responding to the economic impacts of the COVID-19 coronavirus pandemic.

To be eligible the grant program, from which the payment is made, must first be publicly announced on or after 13th September 2020 and directed at supporting businesses, subject to certain restrictions regarding their operations.

The legislation has been introduced to the House of Representatives but has not yet been passed by both Houses of Parliament. If you have any questions regarding the proposed legislation, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

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