A Value Creation Strategy for a Slowing U.S. Economy

Joseph J. Bonocore
President & CEO
Bonocore Technology Partners, LLC
jbonocore@bonocore.com
415-924-9992

Many companies say they are overwhelmed developing the many plans they prepare managing their business including strategies for profit improvement; creating new products & services; and marketing & sales strategies.

Despite this perception of too much planning, I must recommend that each company have a **Value Creation Strategy.** This article describes a six step program for developing such a worthwhile plan.

In too many cases, this important strategy is not being completed today. The results of missing this stratagem are (1) not enough challenges are not being made to these individual plans on their ultimate real positive impact on **company value;** and (2) not enough **integration of these individual initiatives** to optimize their impact on the company value creation across the enterprise.

This Company Value Creation approach has been used by some of the more successful companies in the world to create value but is even more appropriate as we enter an economic slowdown in the U.S.. I hope to demonstrate by this article that it will be valuable for you to adopt this approach in your company in 2008.

Some economists predict the U.S. economy will slide into recession this year. Others expect the nation will barely avoid a recession. Very few predict the economy will see good growth

Based on this outlook, whether or not it is called a recession, the economy seems certain to slow in 2008. This could result in higher unemployment driving hundreds of thousands of people out of work. It could also result in surging energy costs; falling housing prices; and tightening credit. Most analysts agree that this environment will significantly slow down spending and will undermine the six-year expansion.

This view of a slower economy is also supported by a January, 2008 statement from Federal Reserve Chairman Ben S. Bernanke who said a ``temporary'' fiscal stimulus would help the central bank to buttress economic growth He also warned the federal government against worsening the longer-term outlook because of further federal budget deficits.

.Given the current outlook for the next year or so, technology company managers must plan for an environment where sales will be more difficult to achieve and controlling cost will be of even greater importance.

But during a slowing economy there can also a great opportunity to **create additional company value as well.** Why? It can give many companies the opportunity to identify and implement tactical **company value creation initiatives.** These new initiatives will help them to compete more effectively and grow their company in these times of low growth.

In this article, I will discuss a six step **Company Value Creation Strategy Template.** I will also present some potential **value creation initiatives** that management can implement to begin creating value in their organization and help them to better compete in times of low growth.

The six steps are:

A Company Value Creation Strategy

1. Evaluating all company strategies and plans for company value impact;
2. Creating customer responsive company programs & culture;
3. Creating a cost efficient organization through programs & culture change;
4. Creating a vender value chain partnership programs &culture;
5. Planning for the longer term structural issues affective value creation; and
6. Three-tiered management reward system for corporate value creation

Given the length of this article, we will not discuss all of the six steps but will address a few to illustrate the concepts of the value creation analysis that we propose.

1. Evaluating all company strategies and plans for company value impact.

In this step, we suggest that management review all prepared company strategies and plans with two goals in mind:

- **Evaluating to assure the results of the individual strategies or plans (e.g. product & service plans & marketing & sales strategies) are positively and directly contributing to company value creation and quantifying the amount.** In this article we will discuss a number of examples where these plans can be measured including (1) setting customer referral sales goals and cross-selling goals for the sales department; (2) setting customer requirements criteria for product development department; and (3) solutions sales training for sales people.

- **The Value Creation Plan should integrate the individual plans' initiatives and, where appropriate, add others to maximize the company value creation impact.** We will also discuss examples of these as well in this article including (1) integrating your marketing & sales strategy with customer value drivers to drive increased revenue; and (2) integrating financial results, technology innovation & value innovation

incentives in any management reward system to drive greater enterprise value creation growth.

2. Creating Customer Responsive Company Programs & Culture

For more than 100 years, companies focused on internal operations so that they were efficiency-driven with a sales driven view of value creation. This has shaped the entire U.S. business system. Now information and communications technology, the internet in particular, is forcing companies to think differently about value creation. Companies have to be more responsive to **customer experiences**. In fact, today, many experts argue that the driver of a company's value creation is tipping in favor of customer.

At the very least, customers are challenging this corporate logic of value creation. Supported by the customer-responsive technologies, including the Internet the customer will continue to have a much greater influence on value of technology companies especially in this slowing economy.

This has been a fundamental change and a significant challenge for many companies as they attempt to navigate and grow their businesses in this difficult environment. They can not just view their customers as a submissive target market for a great new technology that they have created.

In this environment, companies need to embrace a new approach to value creation where the basis for **value shifts from products to the customer's experiences**. The customer's influence will ultimately spread across the value chain including research and development, design, manufacturing, logistics, and service. Disagreements between companies and customers will be more visible and should be resolved more quickly and more productively.

One example of this is in an article I authored, **Customer Responsive Technology Companies: One Answer to Improving the High Tech Failure Rate.** In this article, I discuss the need for defining better customer acceptance criteria for many of the products and services being offered by many technology companies.

Customer acceptance should not be taken lightly. For example, if not for the GUI interface, it is very doubtful that the personal computer would have ever been as popular as it is. This GUI interface made the personal computer accessible to the average person who is not technical and was not going to learn programming.

Any new product development effort must meet the basic customer's criteria or the product or it will not be accepted.

Another area where revenue, and thus value, can be improved is in the **marketing and selling process.** In fact, many technology companies insist upon using standard information or too much "boilerplate" in their proposals. Most sales proposals are written from the seller's point of view. . This causes many of the proposals to be "dead on arrival".

These proposals are seen as sales-driven and not customer-driven. They are more focused on what the company sees are the customer needs rather then responding to what the customer has defined they want. The sales professional should know enough about the target company to tailor the proposal to the potential customer.

When a proposal doesn't define the expectations and identify the perceptions gap (I.e. the gap between the buyer's expectations and the seller's perceptions) the potential client has little reason for buying the product.

Another important example where corporate value can be created is **linking your marketing and sales strategy to customer value drivers.** Establishing a strong link between customer requirements and the major value-producing activities of your company is the foundation on which the delivery of superior customer value is based.

There must also be a very strong link between defined customer requirements and each of your products and services. These are the **customer value expectations** and they are then expressed in terms of factors that drive the customers' preferences and purchase decisions for particular products and services.

Additional company value can also be created in many technology companies by reviewing their **marketing & sales partnership & alliance programs** for their overall effectiveness. In our research, we found that many of companies are disappointed in the results of these arrangements.

In a recent survey of executives responsible for these alliance programs in their companies that was conducted by our firm, we found:

- Over 2/3 of those responding were not satisfied with the results of their present programs;
- Less then 15% of today's alliances, according to the respondents, are achieving acceptable results; and
- Over 80% of the respondents said that they do not have the accurate information needed to manage these relationships effectively.

These results do not necessarily suggest that the reason for the initial partnerships were not valid. In many cases, their dissatisfaction is due to ineffective implementation or management issues. A careful review of these situations should be conducted to see if the partnerships were wrong or if other changes should be made to improve the results.

In summary, in many cases, companies have significantly underutilized their **partner programs assets.** These programs can potentially provide much greater revenue, and therefore value, to the company if restructured and managed more effectively. However, in many situations, these partnerships are not meeting the goals that were expected at the time the agreements were signed. Also in many cases their performance can not be measured because of lack of proper reporting.

Another source of additional revenue is from **new products & services.** Many technology companies spend a significant amount of time and money in various efforts to find their next new product. In a slowing economy, this money may not be as readily available. However in our research and experience, we have found that the customer can be a great source of new product & service ideas that may be relatively inexpensive to implement. These ideas are usually additional revenue streams that are extensions of present products or services that help solve a customer's problem. Sometimes there may be a need to align with a strategic partner to offer the solution.

3. Creating a cost efficient organization through programs & culture change

A Cost efficient organization through programs & culture change is an important strategic component to an overall company value creation strategy. The goal is for an organization to use all their resources intelligently including cash and people

Some of the key issues that many technology companies have to address in implementing a cost effective organization programs & culture include:

Cost ownership for cost effectiveness must be more clearly defined in many companies: Today cost ownership for cost effectiveness or cost management is unclear and too narrow in too many companies**.** In most surveys, the staff sees the responsibility falling to the CEO or the CFO of the company. Very few line managers see themselves having a significant responsibility for cost effectiveness. Few businesses provide incentives for success in cost effectiveness. However, these incentive programs have proven to be successful in companies that have implemented them and should be used in more companies.

In a slowing economy, it will be even more important that companies not waste funds and other resources in low-value projects that will have no or little financial return. Therefore, technology companies must significantly improve the effectiveness and efficiency of their investments in product development, sales, marketing, and IT.

In addition, to survive in a slow economic growth environment, companies must learn to adapt their product strategies more quickly to rapid changes. They must restructure their offerings into new value propositions that improve earnings growth. For example, even a product company must think of themselves as a solutions provider (i.e. how will my product solve the customer's specific problem?).

Another area for increasing company value is in the **product development cycle**. In a number of situations, the cost structure in a company has been locked into place when the design decisions are made about the company's products. A good cost reduction or profitability program should start with the design of the company's products at the very beginning of the development cycle.

There is a need for a continuous process to improve company value. Companies should implement an ongoing company-wide **Cost Effectiveness Program** which is

designed to encourage all staff to continually identify ways to reduce cost and improve productivity.

This is very different from the traditional way that executives often treat cost reduction programs as one-time efforts to compensate for a bad quarter or a delayed product launch. These short-term programs tend to fizzle out quickly when companies return to better sales growth.

But, as mentioned, with the coming economic pressures, greater emphasis will be placed on all companies to manage their costs in a more meticulous way by methods such as delaying some internal projects; finding additional ways to improve the efficiency and reducing overhead expenses.

Implementing a pro-active continuous cost efficiency program that provides incentives to all staff to participate in finding ways to improve operations can be a great foundation for meeting the goal of a cost effective company.

Examples of elements that a company may want in a cost effectiveness program include **evaluating outsourcing alternatives**; **implementing sustainability practices in operations** and **encouraging a philosophy of reducing waste**.

Evaluate potential outsourcing alternatives for everything that can be performed by others at an "attractive price" and is not considered a company's "core strength" is a good starting point for consideration.

There are a significant number of larger outsourcing companies that have grown in size over the last few years and now offer attractive prices to their customers. In many cases, the cost to outsource is lower then many companies' internal costs. In addition, today you can outsource virtually anything.

There can also be additional benefits including the advantage that as the outsourcing company improves their processes to keep up with technology changes their customers may also receive those benefits of these upgrades. The outsourcing options are worth exploring.

Another element in a good value creation plan should be **evaluating adding sustainability practices in operations.** This entails analyzing your operations and trying to eliminate environmentally bad by-products and to recycle as much as possible in order to reduce costs. In this concept, anything not in a product is considered a cost. As many executives see it, everything coming out of a plant is either product, byproduct (which can be reused or sold), or waste. Why they ask, should there be any waste?

The sustainability concept is further support by many customers who are now looking at the life cycle of a product before making a purchasing decision. The life cycle would be purchasing a product, using it and then disposing of it.

For example, as purchasing incentives, both Apple and HP are offering cash to their customers for the customer's old products, even competitor's products, when they buy new products from them.

The third example of an element in a cost effective value creation plan is to **encourage a company philosophy of reducing waste** in the organization. Many companies have started some type of "think lean" initiative but it's really about a culture change.

One example of 'think lean" that I think applies to the technology industry is in the number of resources that many technology companies' apply to their development projects. We have reviewed a number of studies that conclude that these resources are often over-allocated in this area by up to 100-300%. Overstaffing may not be the only reason since skill mix may also contribute to this problem, but a significant part of the problem may be attributed to overstaffing.

In all areas, including cost effectiveness and customer responsiveness, leading by example is very important for a company to be successful and for a value creation strategy to "take root".

As an example, in one company where management was implementing a value creation program, they were pursuing a major acquisition. There was a lot of open debate around the synergies that might be realized in this merger. At the end, the CEO said, "I don't care about profit impact, is the deal accretive?" With that statement, the people in the company realized that the CEO was not making this decision based on value creation they no longer felt the need to worry about profit. **The lesson: culture change starts from the top.**

6. Three-tiered management reward system for corporate value creation

How are the company's corporate executives rewarded today? Are they rewarded on sales growth or profit or some combination of the two? How much do these measurements have to do with the value drivers of the company?

I would like to discuss a proposed three tiered concept of rewarding technology executives that, we believe, would better align executive rewards with corporate value drivers. The three-tiers are:

- Financial Results:
- Technology Innovation; and
- Value Innovation

The proposed first tier, **Financial Results,** is the most common way that executives are measured in today's environment. They are usually working with financial goals related to revenue, expenses, cash flow, & asset management and are measured accordingly. In the proposed three-tiered reward process very little changes other then the **cost effectiveness program goals** will be included.

The second tier of the new reward system is for their role in **Technology Innovation** which is the creation of a new product or service that increases the benefits and/or reduces the

costs of that product or service. However, as we will discuss, without a corresponding value innovation, this potential is unrealized.

The third tier of the reward system is for their role in **Value Innovation** which is simply defined as creating exceptional value for the customer. Value innovation can occur with or without technology innovation in a company by improving processes in product, service and delivery. This was discussed in this article.

Next Steps

A Company Value Creation Strategy

Once management has identified the need for a Company Value Creation Strategy, they will usually take one the following steps:

- **Initiate a Company Value Creation Assessment & Initiative Process:** Management decides on this approach when they recognize that there is a need in many of the areas discussed in the article. They want to address each of the areas (e.g. customer, cost, and reward issues) to identify initiatives and determine priorities for implementation to be given for future changes.

- **Initiate a Targeted Value Creation Assessment & Initiative Process**: Management decides on this approach when they recognize that there is a priority need in one of these areas (e.g. customer, cost, or reward issue). This adds focus to the effort and allows faster change in one specific area. They want to address that one specific area to identify initiatives and determine priorities for implementation to be given for future changes.

- **Process Improvement Initiative:** In this case**,** management usually identifies high priority important specific process improvement items related to process changes that should be addressed immediately that can impact customer response or cost effectiveness or other areas. Examples could include processes such as: (1) the need to insert customer acceptance criteria into the product development process, or (2) more alternative flexible pricing strategies to meet competition.

Summary

It is important to keep in mind that value innovators do not necessarily have to be the first entrants into their markets to be high value companies. They can create new aggregate demand through a leap in value or at an accessible price. In short, companies do not always follow conventional practices for maximizing profits.

Many value innovators often create value through the use of another company's technology breakthroughs. For example, a number of very successful companies (value innovators), including Apple and 3Com, were created by taking advantage of the technology innovation developed at Xerox's Palo Alto Research Center.

By implementing a well conceived corporate value creation strategy, you can help guide your company in the right direction to build enterprise value. However, successful companies have taught us that the strategy alone will not make it happen. It requires true management commitment; effective processes and training; strong communication with staff and dedication to customers.

If the staff is committed to implementing the plan, I would not be surprised to see a significant increase in company value even in a slowing economy.

Joseph J. Bonocore is President and CEO of Bonocore Technology Partners, LLC Bonocore Technology Partners, LLC is a management consulting firm headquartered in the San Francisco, CA. area that provides strategic planning and operating consulting services to global technology companies, many of them emerging companies. Prior to his present position, Joe was a President and CEO of three technology companies and was a Managing Partner in two "Big 5" Consulting Firms. He is also the author of two books and numerous articles and has been a frequent speaker on technology subjects at various technology conventions and a number of universities.