Value Selling in Logistics - What is it about and when does it work?

07 October 2022 - by Jasper Verburg

Introduction

The market for logistics services has become more and more commoditized over the years. Buyers often have access to valuable market intelligence. And shippers typically prepare well when it comes to the sourcing of logistics services. They increasingly use sophisticated procurement techniques.

As a consequence, rates may be under pressure if a provider doesn't stand-out from the crowd. And yet rates not always have to be the lowest for winning the business.

Attractive or not? Bird-of-Paradise mating dance

A customer's transactional buying approach may not necessarily provide them the optimal result. Shippers usually have bigger needs. If providers can discover those, they may help their customers achieve their goals. And clients often don't mind paying a premium when their life is made easier.

This whitepaper explores what value selling is about, and applies it to selling of logistics services. It describes under which circumstances a value selling approach might be most beneficial to both buyers and sellers.

What is Value Selling?

When comparing logistics service providers, some may offer lowest rates in the market based on their operational excellence. Others might be regarded as product leaders and can stand out in quality. However, most providers will need to strike a balance between price and quality. And by doing so, they risk ending up in the grey zone with everyone else. Not a very attractive position in a highly competitive market, for what is often regarded as commoditized products.

"If logistics service providers are neither the cheapest nor the best, they risk ending up in the grey zone"

However, if service providers are neither the cheapest nor the best, they might differentiate in a third direction. If they choose to become really intimate with their customer, they may hear and see needs which remain hidden to others. By carefully building trust they may open doors to a true understanding of the root causes behind customer requests.

Logistics service providers may use these insights to build solutions that truly help their customer. They add value by enabling their customer's business and solving their problems. Whilst on-par market pricing remains important, providers may steer away from the price discussion and focus on the (quantified) value they bring. It shall thereby be recognized that the appreciation of value may differ between the various customer stakeholders, and the circumstances under which they buy.

When does Value Selling work?

The key to successful value selling is for providers to put themselves in the shoes of their customer. They shouldn't start from their own perspective, but start from their customer's perspective. They should think like their customer and thoroughly understand its current situation and challenges. At the same time, customers shall appreciate that sharing true information, deeper needs and future objectives will help getting a better proposal. Logistics service providers often use a fresh pair of eyes, resulting in sometimes surprisingly new insights. Moreover, providers ideally quantify the (financial) benefits of their proposal.

Value selling typically takes time. It is a lengthy process to fully understand a customer's true needs. It requires significant investment in resources. Taking this approach only makes sense for logistics service providers if the end-reward is large enough for them. The revenue potential shall make up for the sales- and implementation investment. The total customer lifetime shall hereby be taken into account: the total sum of revenues during the entire contract period. Upsell-opportunities may form part of this equation, although it often remains uncertain if these will materialize.

The buyer's perspective

The buying behavior of customers typically depends on what they buy under which circumstances. Peter Kraljic showed that procurement professionals may distinguish between four categories of services, depending on sourcing risk and (financial) impact to the organization. Usually, different buying tactics are applied for each category.

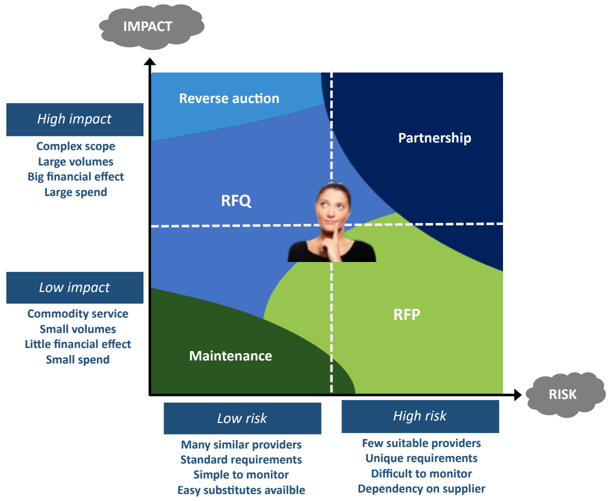

Figure 1: Buyer considerations

Non-critical services are characterized by a low sourcing risk and small impact on the company's financials. Therefore, companies may not want to pay too much attention. This category includes low volume, standard commodity services. Although many alternatives are available, in practice logistics services in this category often are sourced from a limited set of known providers, based on trust and good prior experience. Examples include small irregular shipments and simple overflow storage.

Leverage services combine a low sourcing risk with high financial impact. This impact may be the result of large volumes, or combining multiple services into one end-to-end solution. Operating requirements usually are easy and many potential providers exist. Unit prices are kept low through frequent RFQ's, sometimes helped by reverse auction techniques. Large ocean and airfreight tenders typically fall into this category.

> *"Sales becomes more effective when aligning to the customer's buying behavior. It typically depends on which services are bought under which circumstances"*

Bottleneck services have a high sourcing risk but only a minor impact on a company's financials. Unique requirements limit the number of providers that are able to offer the service. Often a company relies on specific supplier knowledge, technology or expertise critical to successfully operating the service. The frequency of use may be low. Usually, a detailed RFP will stress requirements beyond price. Examples are specialized final mile installation services, and shipping to countries with complex customs regimes.

Strategic services represent services with both a high sourcing risk and a high financial impact. Providers are typically required to offer a complex solution, often based on a combination of different business critical services, and a large geographical scope. A supplier's technology and IT integration may be critical. Reliability and long term availability are key. Buying this type of solutions is likely to be a lengthy and diligent process to secure a long term partnership. Only a limited number of providers will be consulted. 4PL control tower solutions and large integrated e-fulfillment operations are good examples of candidates for this approach.

The seller's perspective

Logistics service providers usually sell more effectively when they adapt their way of selling to what their customer is buying and how their customer is buying. Understanding the size and complexity of the requested services, and knowing the importance to the customer can help providers select the most promising opportunities. Matching selling style with buying behavior usually aligns expectations and builds trust.

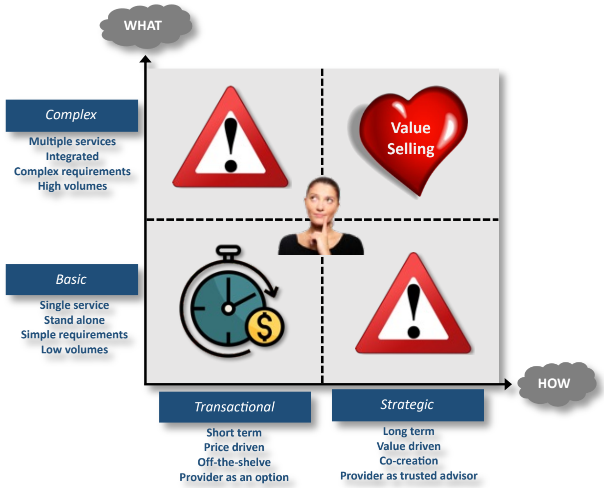

Figure 2: Seller considerations

Customers buy services ranging from basic to complex. *Basic services* often are stand-alone, single services with a limited scope, and simple operating requirements. The volumes typically are low. Examples include regular truck moves and LCL ocean moves on non-critical lanes.

Complex services often combine and integrate different services. These are difficult to operate due to complex operating requirements which may include sophisticated visibility needs. The services often span across multiple geographies, and may represent high volumes. Large scale door-to-door ocean and airfreight solutions fall into this group, as well as complex warehouse operations, order management and control tower solutions.

The buying style of a customer may range from transactional to strategic. When buying in a *transactional* way, customers focus on the short term and price is the dominant decision making factor. Customers may accept a more standardized solution. They are therefore likely to regard a particular logistics service provider as just one of the many options available.

On the other hand, *strategically* buying customers understand that only few providers may be able to offer what they need. Maximum long-term value is the dominant decision making factor. Customers seek a long term relationship based on mutual trust. They provide information and access to stakeholders. They appreciate a provider's advice and will often embark on co-creating the solution.

It takes two to tango

Combining insight in how a customer categorizes the service they are buying with carefully observing a customer's buying behavior, can provide clear indications to logistics service providers whether a value selling approach may work or not. Mutual disappointments and wasting time, energy and costs may be avoided if the expectations of both parties are clear from the outset. Ideally, the intent, pace, style and steps of the buying and selling processes are carefully synchronized.

Passion through synchronized moves

Value selling typically can work well when the buyer categorizes the services as strategic. The financial impact to the organization is significant and the sourcing risk is high. This often is the case with complex services that are not easily provided by many. The sourcing risk is high and therefore customers usually apply a strategic buying behavior. A rigorous selection process is followed whereby content and quality of the provider's proposal prevail over price. The customer is looking for a (financial) calculation of expected benefits along with a clear implementation path including risk mitigation. Trust and personal relationships across the decision making group are essential.

Value selling usually doesn't work well when the buyer categorizes the services as non-critical. The customer can choose from plenty of alternative providers and a decision to award the business to a particular provider does not result in a big financial impact. Customers would typically apply a transactional buying approach. They show only limited interest in value arguments as the prime reason to buy is price. Moreover, the service shall be predictable, reliable and meeting their operating requirements. The customers simply isn't interested in the benefits of a long term approach.

"Value selling typically works best when customers regard the services they buy as strategic to their business"

Value selling may be risky when the buyer categorizes the services as a bottleneck or leverage product. It these instances customers usually show interest in value aspects such as sophisticated solutions, cost saving initiatives and optimization of their supply chain operations. However, applying value selling bears risks for the logistics service provider.

When regarded as a bottleneck product, volumes and total revenue potential may be too low for the provider. This might be offset by a long contract duration. When seen as a leverage product, a customer is at the end of the day likely to decide on price rather than value. Any improvement and savings suggestions will be happily taken onboard as free consultancy. In both cases a provider makes significant investments in time and money with only a small chance of high enough returns in revenue and profit.

Conclusion

Value selling in logistics can be beneficial to logistics service providers and their customers alike. However, clear alignment on the intent to form a longer term, strategic partnership is important. Only then will providers be willing to invest in the long sales cycle, and will they be willing to dive deep into a customer's supply chain needs. But when they do, they might deliver significant customer value that would otherwise have remained locked.

About the article:
This article is a summary of the plenary introduction provided during the PICS Belgium Supply Chain Café online session on 29 September 2022.

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