

# Turning your USP into Cash!

How to think differently about what you sell – it  
might not be what you think it is!!!

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# What is a USP?

- We are all familiar with the term “Unique Selling Point” but are we that familiar?
- Whenever I ask what the USP of an organisation is I am given a list of features and benefits of the product (s) or service (s) but is this the answer?
- Surely a USP should be a means to gain substantial competitive advantage over my competitors
- It should be something that they cannot replicate easily, if at all!
- It should also be something that means I no longer compete on price – in fact I can charge more and the customer is really happy to pay more!!

# The key steps

Essence:

Clients grant business for proven excellent supply performance that enhances their own ability to capture market and achieve higher levels of financial performance

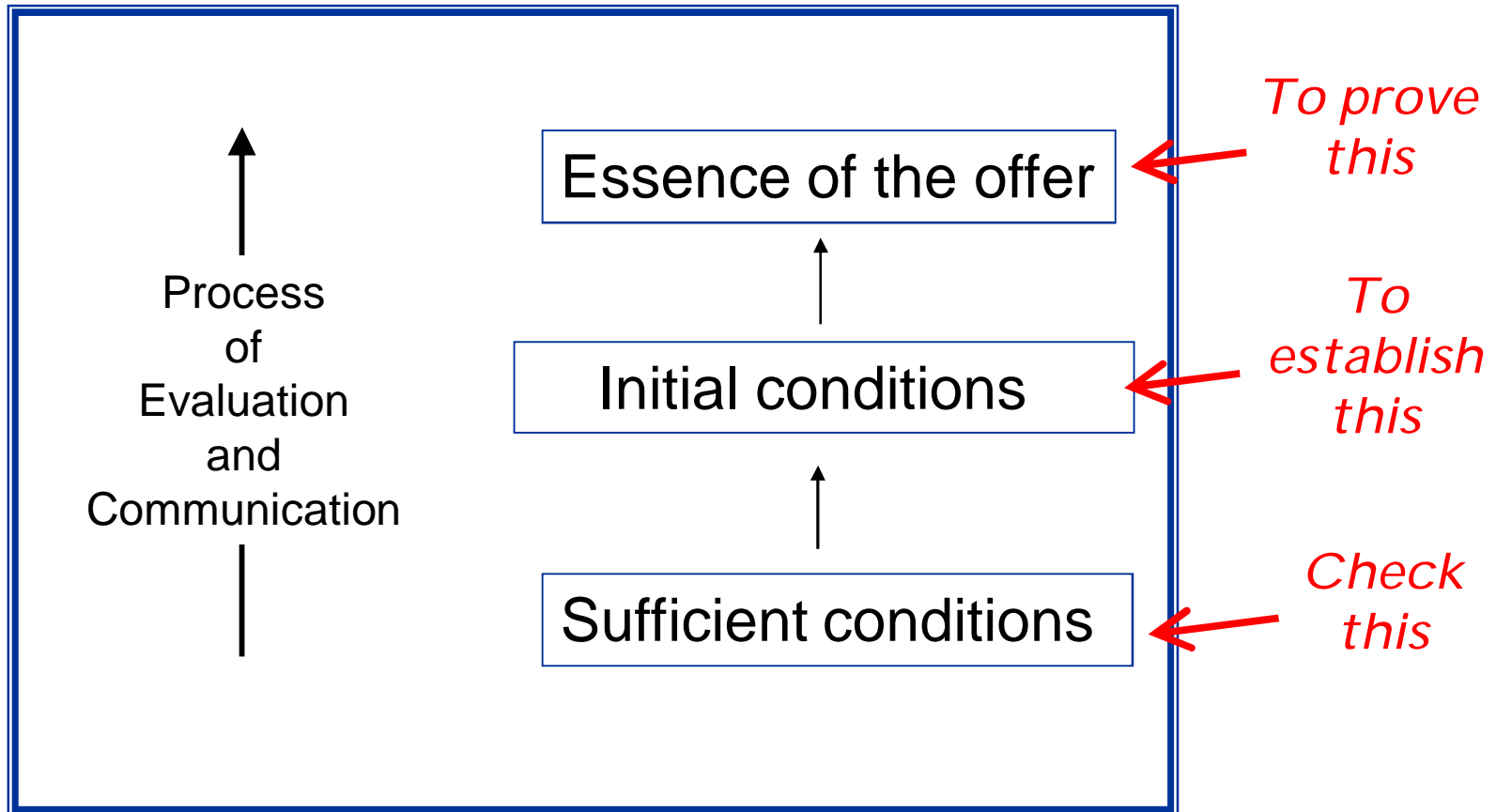
Initial condition:

This is the result of the analysis of the client's problems and issues – leading to his core problem, and how we are going to help address it

Sufficient conditions:

*Conditions that we can easily and reliably verify and which will decisively validate the above*

# What are the conditions under which we can be certain the approach is applicable?



# So....

- Let's examine an actual example drawn from the work of the TOC group – The Goldratt Institute in the USA – and a PCB manufacturer in the USA
- The approach should make itself obvious!

# Some background to the case study

- This was, and still is, a market that had high levels of obsolescence
- The product supplied was liable to engineering changes and customer driven changes
- The cost of holding stock was high enough to merit a re-think – hence this case study

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# Rapid Response

## (Based on the approach used by Zycon)

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**Step 1: verifying whether the approach is applicable**

**Step 2: applying the approach**

# Rapid Response (Zycon)

Essence:

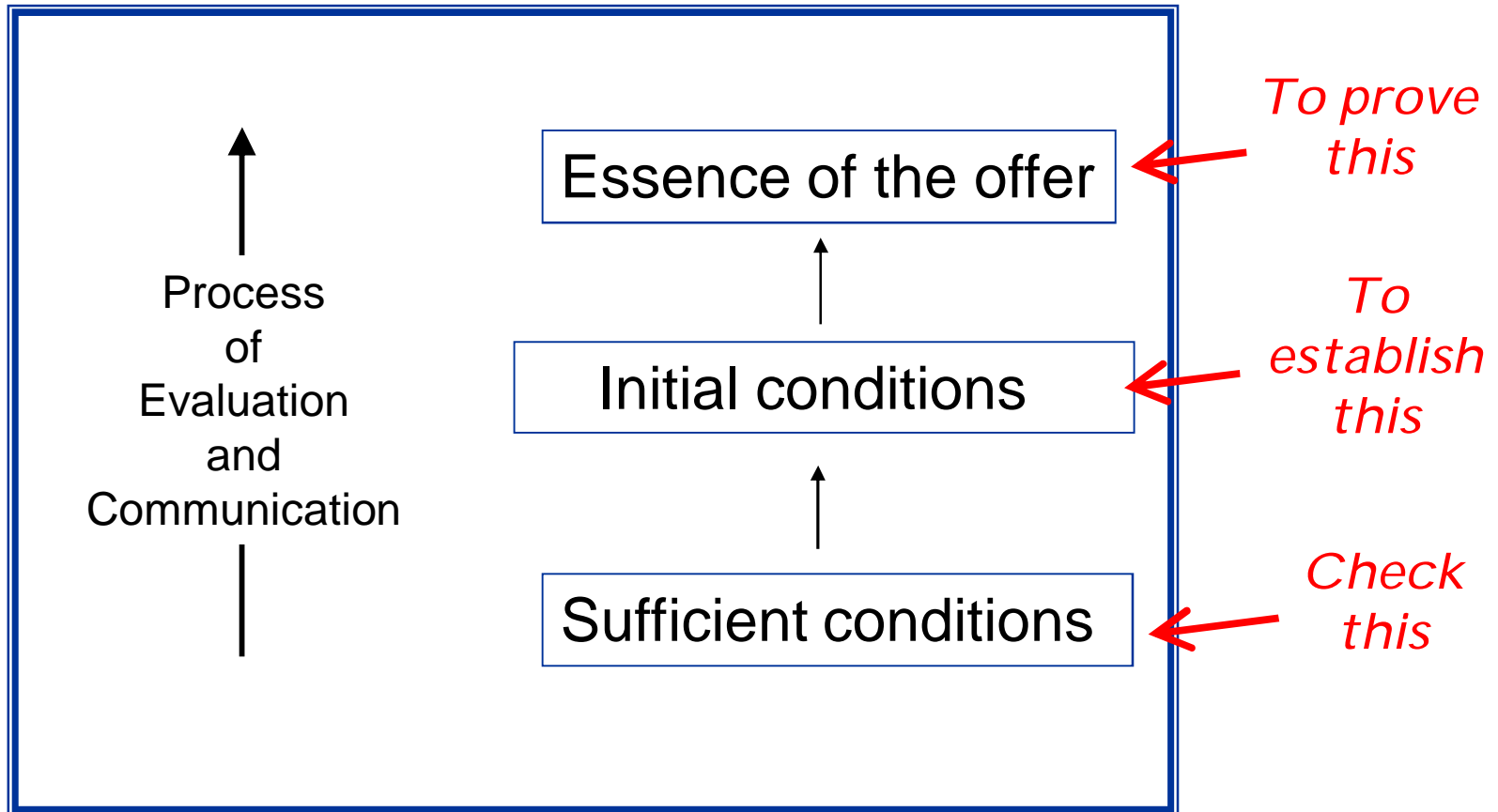
Enough clients pay premium for committed faster deliveries

Initial condition:

Clients frequently suffer from unavailability

*What is the chance of getting reliable answers from our clients?*

# Remember the steps



Essence:

Enough clients pay premium for committed faster deliveries

N&S condition:

Clients frequently suffer from unavailability

Sufficient conditions:

*Conditions that we can easily and reliably verify and which will decisively validate the above*

*Conditions that we can easily and reliably verify  
and which will decisively validate the above*

1. The standard lead time in the industry is relatively long  
(e.g. ~6 weeks)
2. The standard DDP in the industry is relatively poor  
(e.g. ~80% DDP)

Assumption:

Orders are based on forecast

**Conclusion:**

**It is likely clients have significant unavailability**

*Conditions that we can easily and reliably verify  
and which will decisively validate the above*

1. The standard lead time in the industry is relatively long (e.g. ~6 weeks)
2. The standard DDP in the industry is relatively bad (e.g. ~80% DDP)
3. The purchase price is negligible relative to the selling price (e.g. ~5%)

**Conclusion:**

**It is likely that clients SUFFER from unavailability**

**(The damage of not having the supplier's product is much greater than the cost of the supplier's product.)**

***Conditions that we can easily and reliably verify  
and which will decisively validate the above***

1. The standard lead time in the industry is relatively long (e.g. ~6 weeks)
2. The standard DDP in the industry is relatively bad (e.g. ~80% DDP)
3. The purchase price is negligible relative to the selling price (e.g. ~5%)
- 4. The clients do not find it easy to pursue an alternative solution**

**Check:**

- ∅ It is not a commodity (the product is not readily available in the market)
- ∅ The product is not a repeated business OR the number of relevant SKUs the client consumes is relatively high (the client will find it more costly to increase stock levels)
- ∅ There is no alternative product that can be easily adjusted

**Conclusion:**

***Clients frequently suffer from unavailability***

**Possible check: level of emergencies (rush orders)**

# Rapid Response (Zycon)

Essence:

Clients pay premium for committed faster deliveries

*To prove this*

Initial conditions:

Clients frequently suffer from unavailability

*To establish this*

Sufficient conditions:

1. The standard lead time in the industry is relatively long (e.g. ~6 weeks)
2. The standard DDP in the industry is relatively bad (e.g. ~80% DDP)
3. The purchase price is negligible relative to the selling price (e.g. ~5%)
4. The clients do not find it easy to pursue an alternative solution

*Check this*

## Clients frequently suffer from unavailability

1. The standard lead time in the industry is relatively long (e.g. ~6 weeks)
2. The standard DDP in the industry is relatively bad (e.g. ~80% DDP)
3. The purchase price is negligible relative to the selling price (e.g. ~5%)
4. The clients do not find it easy to pursue an alternative solution

Using TOC (DBR) we can bring our client to have DDP of almost 100% while cutting the lead time by half. For priority orders we can safely guarantee lead times which are 20% or less of current lead times.

Enough clients pay premium for  
committed faster deliveries

## THE RAPID RESPONSE OFFER

- Ø For regular lead times at regular prices we add the commitment to pay significant penalty for missed delivery.
- Ø If customer requires we offer rapid deliveries (assured by high penalties) for a premium.

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# Rapid Response (Zycon)

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**Step 1: verifying whether the approach is applicable**



**Step 2: applying the approach**

Essence:

→ Enough clients  
pay premium  
for committed  
faster deliveries

*What is the size of the market for this offer?*

*What is the pricing model?*

*What is the penalties model?*

*What are the proposed lead times?*

**Enough clients pay premium  
for committed faster deliveries**

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*What is the size of the market for this offer?*

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**The sufficiency conditions turns the penalty  
offer into an unrefusable offer for  
regular lead times.**

**BUT are we interested to sell most of our  
capacity at just market prices?**

**Enough clients pay premium  
for committed faster deliveries**

*What is the size of the market for this offer?*

*What will be the level of rapid service?*

**Existing clients base**

**New clients base**

**Will the current level of emergencies  
remain the same?**

**Serving as  
a back up  
supplier  
for rapid  
service**

**CURRENTLY...**

- Ø Clients don't always place urgent orders
- Ø The supplier doesn't accept all urgent requests
- Ø Clients place urgent orders on competitors

**Estimation: ~1/3 of the existing volume will be  
rapid service (half of it super express).**

**Estimation:  
More...**

Enough clients pay premium  
for committed faster deliveries

*What is the pricing model?*

*How much more can we charge for the rapid service?*

Consideration 1:

The ratio between purchase  
price and selling price

***The premium should be  
small relative to the  
client's margin.***

Consideration 2:

The cost of an  
alternative solution

***The premium should be  
smaller than the additional  
cost of the alternative solution.***

**CHARGING MORE THAN 4x MIGHT PUSH  
CLIENTS TO DEVELOP ALTERNATIVE SOLUTIONS**

**RECOMMENDATION:  
Maximum 4X standard price**

Enough clients pay premium  
for committed faster deliveries

*What is the pricing model?*

*What should be the price for the regular service?*

***The comparison base for the premium prices is the price for the regular service.***

***If the price for the regular service is perceived as relatively high the clients will be more reluctant to pay the premium prices***

**RECOMMENDATION:**

Regular clients: don't up the price on regular service

Back-up supplier: the price for regular service should be slightly below market price

***(If regular service is not desired, up the lead-time, not the price)***

Enough clients pay premium  
for **committed** faster deliveries

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*What is the penalties model?*

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*What are the criteria to evaluate the size of the penalties?*

- 1. The penalties should be high enough to build the confidence of the client in the commitment to deliver the rapid service*
- 2. The penalties should be high enough to block competition*

**RECOMMENDATION:**  
**10% of selling price per day of missed delivery**

**Enough clients pay premium  
for committed **faster deliveries****

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*What are the proposed lead times?*

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**Regular lead time:**

Length should be determined based on available capacity

**Express lead time:**

Length should be below half of regular lead time

**Super Express lead time:**

Length should be perceived by the clients as “impossible”

1. The standard lead time in the industry is relatively long (e.g. ~6 weeks)
2. The standard DDP in the industry is relatively bad (e.g. ~80% DDP)
3. The purchase price is negligible relative to the selling price (e.g. ~5%)
4. The clients do not find it easy to pursue an alternative solution

***When will we prefer another template although all the conditions for Zycon apply?***

***Important client and competitor is likely to be offering VMI.***

***The premium on rapid service is low to the extent that total premium approaches VMI premiums.***

Let's examine another approach,  
this time Vendor Managed Inventory  
(VMI)

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# The VMI Approach

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**Step 1: verifying whether the approach is applicable**

# VMI

Essence:

Manufacturers grant business for proven excellent availability coupled with lower inventory and less hassle at good prices

Initial condition:

Manufacturers are not completely satisfied with the current balance between availability and inventory

Sufficient conditions:

*Conditions that we can easily and reliably verify and which will decisively validate the above*

*Conditions that we can easily and reliably verify  
and which will decisively validate the above*

1. Manufacturers place repeat orders for the same sku
2. Manufacturers order an SKU relatively infrequently  
(once in 2-3 weeks)
3. The value of the sku is not negligible.

**Conclusion:**

**manufacturers hold not insignificant surplus inventory.**

4. Manufacturers produce (essentially) to forecast

**Conclusion:**

***some problems of availability are likely to exist.***

*Conditions that we can easily and reliably verify  
and which will decisively validate the above*

**Conclusion: manufacturers hold not insignificant surplus inventory.**

**Conclusion: some problems of availability are likely to exist.**

**Conclusion:**

***clients are not completely satisfied with the current  
balance between availability and inventory***

**Factors that enhance the dissatisfaction:**

- Ü** Life span of inventory is relatively limited (not 100 times bigger than inventory)
- Ü** There are emergency orders (e.g. 3%)

# VMI

Essence:

Manufacturers grant business for proven excellent availability coupled with lower inventory and less hassle at good prices

*To prove this*

Initial condition:

Manufacturers are not completely satisfied with the current balance between availability and inventory

*To establish this*

Sufficient conditions:

1. Manufacturers place repeat orders for the same sku
2. Manufacturers order an SKU relatively infrequently (once in 2-3 weeks)
3. The value of the sku is not negligible
4. Manufacturers produce (essentially) to forecast

*Check this*

Manufacturers are not completely satisfied with the current balance between availability and inventory



1. Manufacturers place repeat orders for the same sku
2. Manufacturers order an SKU relatively infrequently (once in 2-3 weeks)
3. The value of the sku is not negligible
4. Manufacturers produce (essentially) to forecast

Using TOC solution for production (cutting the production lead time) and distribution (eliminating the order lead time, frequent deliveries and monitoring the inventory targets) we can bring our client to provide its clients full availability with less than half the inventory.

Manufacturers grant business for proven excellent availability coupled with lower inventory and less hassle at good prices

## THE VMI OFFER

- Ø Based on actual consumption data (no orders) we manage the client's inventory, guaranteeing excellent availability with less than half the inventory (or no inventory – client owns the products only when it is released to the floor).

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# VMI

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**Step 1: verifying whether the approach is applicable**



**Step 2: applying the approach**

Essence:

Manufacturers  
grant business  
for proven  
excellent availability coupled with lower  
inventory and less hassle  
at good prices

*What is the size of the market for this offer?*

*What can the supplier expect in return?*

*How do we raise the client's confidence?*

*What is the replenishment model?*

*What is the pricing model?*

**Manufacturers** grant business for proven excellent availability coupled with lower inventory and less hassle at good prices

*What is the size of the market for this offer?*

Expand shares within existing clients

- Ø Demand all volume of an SKU
- Ø Expand to other SKUs

**Estimation:**  
Increase in volume depends on the current share of the client's business

Expand to new clients

**Target high T clients**

**Estimation:**  
The limit is dictated by our capacity

Manufacturers **grant business** for proven excellent availability coupled with lower inventory and less hassle at good prices

*What can the supplier expect in return?*

**Expand shares within existing clients**

Exclusivity on selected SKUs

Expansion to additional product lines

**Small premiums**  
2-10%  
(After proof of benefits)

**Securing good business**

Automatic reorder

Significant barrier for competitors

Manufacturers grant business **for proven** excellent availability coupled with lower inventory and less hassle at good prices

*How do we raise the client's confidence?*

Penalties for unavailability

- Ø **The penalties should be high enough to build the confidence of the client in the commitment to ensure supply**
- Ø **The penalties should NOT try to cover the damage to the client**
- Ø **RECOMMENDATION: Fixed Dollar per day per SKU not available. Large enough that the client knows you care**

Pilot

- Ø **On representative SKUs!!!**
- Ø **Might need additional buffer to raise the confidence of the client (after pilot ends the additional buffer should be consumed).**

Long sales process

- Ø **Meet with different functions of the client's organization**
- Ø **Have the client talk with relevant functions of the supplier's organization**
- Ø **Invite the client for supplier's site visit**
- Ø **Explain the entire logic, show the software**

Manufacturers grant business for proven **excellent availability coupled with lower inventory and less hassle** at good prices

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*What is the replenishment model?*

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- Ø Clients don't do any of the activities relating to purchasing (orders, expediting, shuffling dates, batching...)
- Ø Clients provide consumption data daily, supplier replenishes periodically accordingly
- Ø Client owns much less inventory
  - Ø **Consignment**: client pays only for what is consumed (in cases of phase out client own the residual inventory).
  - Ø **Non-Consignment (preferred)**: client holds less inventory (half) and pay upon receiving.

Manufacturers grant business for proven excellent availability coupled with lower inventory and less hassle **at good prices**

*What is the pricing model?*

*How much more can we charge for VMI?*

Consideration 1:

The ratio between total purchase price and benefits

***The premium should be small relative to the client's benefits***

Consideration 2:

The timing of the price increase

***The client will not appreciate the full benefits of VMI at the outset***

**CHARGING TOO MUCH MIGHT PUSH CLIENTS TO OTHER STRATEGIES**

**RECOMMENDATION:**

**At the outset no premium, after a while up the prices by 2-10% above market price.**

# Conclusions

- In both cases the importance of identifying the USP centred on both the product itself AND the channel to market
- Knowing that the client wants to buy is insufficient to turn that product/service into a USP – wanting it, the product or service, is not a unique – how we deliver it often is.
- It is critical that any USP addresses the core problem of the client and therefore no amount of focusing on the features and benefits of the product/service will help – a unique understanding of the core issues of the client always does.

# Conclusions continued....

- This presentation has focused on manufacturing industry
- However the same approach is used in all manner of industries, sectors etc
- It is all about knowing your market, knowing your own capability, and how you can maximise your potential with respect to your chosen market in such a way that your competitors are unable to replicate what you are doing, you can pick the clients you want to work with, and the markets you want to work in, and making money now and in the future.

# How to contact me

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