Chapter 1

Getting Started with Dollarization

The weekend arrives and you're shopping for paint to freshen up the outside of your home. You arrive at the local paint store to find many choices. You narrow the possibilities down to two: Product X costs $12 a gallon; product Y costs $20 a gallon. Which paint should you buy?

The salesperson greets you with a warm smile. She watches you deliberate, then says, "I strongly recommend product Y. Its price may be higher, but it will last eight years, while the other paint will last four at best. That means that over eight years, you'd have to buy product X twice, for a total of $24 a gallon, versus just $20 a gallon for product Y. In reality, product Y costs less!"

You reply, "That's very interesting, but I'm preparing to sell my home, so I don't care about how long this paint will last. I think I'll go with product X for $12."

The salesperson listens and responds, "I understand, but I think product Y is still your best choice. You see, product Y contains 50 percent more pigment, which results in better coverage than product X. This means you will need to apply only one coat to your house. Product X will require at least two coats. This will also cut your labor costs in half. Plus, you are guaranteed that your house will look freshly painted, which will improve your success in selling your home. Wouldn't you agree that an extra $8 per gallon is a great investment to sell your house at the price you want?"

Finally, you decide. The $20 paint is actually less expensive than the $12 paint.

The logic in this example seems obvious, yet every day, sellers and marketers lose sales because they unintentionally allow customers to believe that their higher-priced products truly cost more than their competitors'. And every day, customers choose low-priced products despite the higher total cost that will actually result.

Consider another familiar scenario: When buying a car, there are many costs and considerations to weigh. There is, of course, the *price*, which typically gets 99 percent of the buyer's attention. But there are also fuel costs, maintenance costs, finance costs, insurance costs, personal property taxes, resale value, and on and on. In reality, price is but one of many costs to consider when weighing the decision to buy a car.

When businesses make purchases, too often they are myopic and overemphasize the importance of price. They overlook (sometimes inadvertently, sometimes intentionally) the many other financial consequences of choosing one offering over another. This is a failure on the buyer's part, because it may very well result in financial harm to the organization. But more importantly, it is a failure on the seller's part because the seller has missed the chance to demonstrate the true financial impact that could be provided to the customer.

As with house paint and cars, the meaningful way to compare the cost of two offerings is by evaluating the *total cost* of using each. In order to help customers to understand the true net cost of your product, you must *dollarize the product's true value*.

WHAT IS DOLLARIZATION?

This book is about a concept we coined called *dollarization*. Dollarization can be defined many ways depending on its usage, but the essential concept is:

> **Dollarization** The translation of the benefits a product or service delivers to a customer into the dollars-and-cents financial impact to that customer.

In other words, dollarization is a method for converting the ubiquitous buzzword "value-added" into real money. It is *figuring out what your offering is really worth—in dollars and cents—to your customer*.

Dollarization is a management discipline that is missing in many sales and marketing organizations. Its impact can be great, and its applications are many.

Dollarization is not an entirely new concept. For years, good companies have understood the need to express their value in financial terms. But even the best firms tend to utilize a dollarized approach to sales and marketing only in selected situations. Or they apply it too narrowly. For example, some companies use the concept called "lowest cost of ownership." This is a good concept—if the seller really does the math—but it is often half the dollarized story. The other half of the dollarization story is calculating the top-line revenues (and consequent margin dollars) that *a seller's product can generate* for the buyer. If the seller's product enables the customer's company to get its product to market faster, or to outperform the customer's competition, or to raise prices, then the customer's return on the seller's product can be enormous.

Sellers of big-ticket items are often forced (by customer capital appropriation policies) to demonstrate the return on investment (ROI) for their wares. Other industries dollarize because the need is self-evident: For example, jet engine makers compete on fuel efficiency because small changes in miles per gallon can have enormous impact on the operating costs of their airline customers. But more often than not, dollarization is not even considered by the seller.

Nor is dollarization demanded by enough customers. The foremost mission of a business is to create value for its owners. Managers of a business have a fiduciary responsibility to the owners to manage in a fashion that can be reasonably expected to create value. And when shareholders discuss "value," they are talking about the *financial* value of the share price, the cash flow, the dividend paid.

When a business operates, its managers must align the available resources to create value. It follows, then, that every expenditure made by a company should be made with an eye toward value creation.

When a company needs to make a major infrastructure investment—a new piece of capital equipment or a new software platform, for example—it is common for managers to conduct some level of due diligence and economic analysis to assure themselves that their investment will provide the best return. But somewhere down the purchasing chain, after the capital goods but long before the paper clips and toilet paper, many managers abandon this financial discipline. They see those remaining products as inconsequential and focus not on value but on price. Worse yet, the *marketers and sellers* of these products succumb to this negative belief and complain that their so-called commodity products are judged only on price. But even seemingly inconsequential products can be dollarized. Whether through subtle product design or performance differences, or through packaging, delivery, or service elements, any product a business buys *can* be dollarized.

With this book, we will explain how dollarization can help your company better understand, articulate, and profit from the value you create for your customers and clients. Dollarization should become a standing discipline that guides your thinking

> *Note:* Our discussion of dollarization is intended to help companies understand and demonstrate the true value delivered by their offerings. This knowledge can be used for direct advantage in the marketplace, and can be used for a variety of strategic purposes. Occasionally, we are approached by firms that hope dollarization can in some way help obfuscate the true market situation, and thereby provide an opportunity for an offering to shine brighter to potential customers than reality might warrant. While there are certainly many legitimate sales and marketing uses of dollarization that we believe can improve a seller's chances of success, we do not intend it to serve as an illegitimate smoke screen.
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> *If you tell lies about a product, you will be found out by the Government, which will prosecute you, or by the consumer, who will punish you by not buying your product a second time.*[1]
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> —David Ogilvy

about pricing, selling, positioning, new product development, and nearly every other area of your sales and marketing.

Companies that truly create economic value for their customers *deserve to share in that value*. The price premium a value-creating firm can command enables the company to invest in continued innovation and to commit resources to generate even further value. Dollarization enables companies to afford the necessary investments required to perpetuate the creation of customer value.

Too many companies create value but don't keep their rightful share. We hope after reading this book you will do otherwise . . . and dollarize.