

Owens Corning's metric

The fundamental reason corporations exist is to create value for customers



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The challenge

Owens Corning issued a critical objective at the beginning of 2007 that all its employees must be accountable for the value they create for customers. The point was made with a simple statement: "The fundamental reason a corporation exists is to create value for its customers." Of course everyone knew that Owens Corning has been creating customer value for a long time; the company has been in business since 1938 and is an industry leader in glass fiber insulation, glass fiber reinforcements and roofing and asphalt. But Owens Corning recognized the opportunity to win in the marketplace by measuring customer value and making the organization accountable for this. That's how improvement is made.

So three years ago Owens Corning defined a goal for itself that was very simple, concise and meaningful: In 2007 we would understand the value we deliver to customers and determine a means to measure it. The operative word in the goal was "measure"! We set out to find a measure and looked at a lot of the available measurement schemes in the market. We talked to Gallup Inc., Bain & Co., J.D. Power and Associates – a lot of different people – and found that many of the schemes would not achieve our goal. They were largely retrospective and based on things such as satisfaction, loyalty and engagement, but they really didn't help us understand our value. We wanted to get to the universal standard of value, which is money. So we challenged ourselves with the question, "Do we know if our customers make more money doing business with us versus the other guy?" If they did, we knew that our ability to capture business would be higher, and we could truly live up to our mantra of "winning with our customers."

We set our sights on how to measure Owens Corning's value through the lens of making money with customers. As we looked around we found a scheme

we thought made a lot of sense. This came to us from the solution provider Valkre Solutions Inc. and encompasses a phenomenon called differential value. At Owens Corning today, if you were to walk around the hallway or sit in any of our meetings, you'd likely hear references to differential value. It has become the prevalent language for how we operate with customers and is a simply defined phenomenon: Are we making a difference? Do our customers make more money doing business with us than with the other guy?

Developing the metric

The metric's development history has key grounding principles, a few of which are:

- **Matter to the customer.** This is the single most important point. The customer needs to see itself in the metric and know what's in this for it.
- **Matter to the sales organization.** The metric can be used directly by sales in the day-to-day management of customer dealings. The metric must make sense to sales and its customers, be accepted by sales' corporate leaders and have practical application to achieving sales targets.

- **Matter to you.** The metric needs to be one that if improved will generate results for you and your company.
- **Business to business versus business to consumer.** Decisions in the B2B world are heavily influenced by economics rather than attitudes. Attitudes tend to shift with individual personalities. You don't want to do well one day and be in the frying pan the next because personalities changed on the other side of the table. That's hard to explain to your chief executive officer!
- **Forward looking.** You need a metric that can help you look around corners and shape a road map forward. Measuring last year's performance is nice, but measuring next year's is better.
- **Scale up, down and sideways.** You require a metric that scales up to the business level, down to the customer level and across business and customer types. The measure must allow you to aggregate information for decision making but also disseminate for execution.

So what do we measure? In many ways it is very simple: our value proposition. It is hard to pick up a business book that does not tell us we need a value proposition. Experts go on to say that the proposition must be differentiated relative to competition. Well, if this is so important, then why don't we have a good way to measure it? Providing a good way to measure the differential value proposition is the subject of this article and reason we have had success. As a metric, your DVP has two critical parts that when combined create powerful insights into the very core of your business. The first part is the set of factors that impact your customer's bottom line. We call them value attributes. They can be thought of as investment categories your organization makes to create competitive advantage. In our experience companies may have as many as 30 attributes in their arsenal that can include investments such as the sales organization, brand name, packaging

or product differentiation—much more than product features.

Although your organization may invest in 30 different categories, chances are slim that every value attribute is valued differentially to competitors by a given customer. For many customers there may be only four or five attributes that make up your DVP. To show each attribute's

Figure 1.

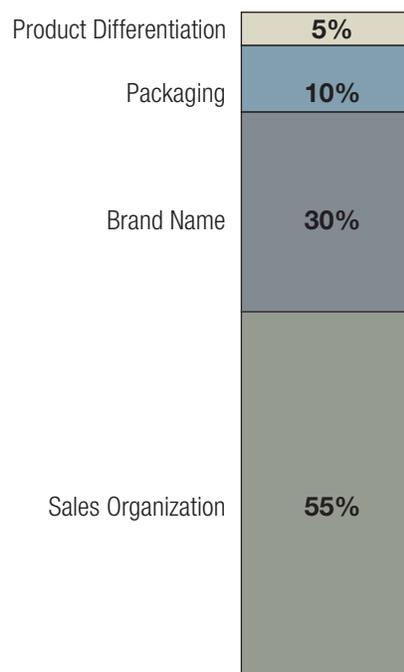


Figure 2.

$$\text{DVP\%} = \frac{\text{Differential profits to customer}}{\text{Cost of your products/services that customer buys/uses}}$$

relative value and impact, the attributes are depicted in Figure 1 as a simple stacked bar chart that adds up to 100 points or 100 percent. In the example, brand name would be considered three times more valuable than packaging to the customer's bottom line.

Portraying the set of value attributes that make up your DVP as a stacked

bar chart has several advantages over simply rating how valuable your sales organization is on a scale from one to 10. First, it is simple. In one quick view there is full transparency between the customer, sales, marketing, management and the rest of an organization on what your competitive advantage is with a given customer. Second, allocating 100 points across an open-ended list of attributes provides customers flexibility to express their opinion while forcing them to be specific on what is most important to their business. Finally, this is built on numbers, allowing you to combine and break out customer perspectives to truly segment your customer according to its needs. While it is important to understand the attributes that make up your DVP, the stacked bar chart doesn't help us understand your competitive advantage's strength or customer's loyalty. What we need is an idea of how much money the attributes make for the customer relative to competition.

What organizations really need is a simple metric that can be calculated on the back of an envelope and clearly defines how much customer value is created. Through our work, we've developed a metric that fits the bill called differential value proposition percentage. A DVP% is a simple but financially rigorous ratio that can be easily explained and communicated both internally and with customers. Figure 2 shows how this is calculated. Said another way, the DVP% represents the amount of differential operating margin dollars created for a customer for each dollar of goods and services the customer purchases from you. As an example, if your DVP% is 3 percent for a customer, and it buys \$1 million worth of goods, then your DVP is worth \$30,000 to its bottom line.

The beauty of this DVP% metric is that it is of interest to both you and your customers and it gets to the essence of business. Your customer picked you because it believed that it could make more money relative to alternatives. You do business with your customer because you believe you provide it with a superior

alternative from which you can make money. We measure the intersection of truth between these perspectives. From your perspective it is a rigorous measure founded in economics that can be backed up with data that create clarity on where you stand. If your DVP% is zero, that means you are a commodity and slight fluctuations in price may drive a customer to switch. If your DVP% is negative, that customer makes more money doing business with your competition and any business you have can be considered at risk.

From a customer's perspective DVP% is critical to the customer's success. The higher the number, the better off the customer is. Some customers believe they intuitively know this and make decisions based on this intuition. Our experience suggests that even those customers that believe they intuitively know this differential value are less accurate in their assessment than they believe. The DVP% takes away the faulty assumptions and overconfidence biases and provides real clarity about the attributes that deliver differential value among competitors.

Capturing the customer perspective

Like so many things in life the business reality is that there are two sides to the story. For things to work, both sides need to be on the same page. In business, one of those things is how money is made on both sides and how more money can be made. The DVP metric's relatively simple nature lends itself to being the basis of this understanding. In our experience, collaboratively measuring your DVP with a customer can be an emotional, rewarding experience for both parties. This is typically done at the customer's office and includes management, sales, marketing, purchasing, operations, etc., all in one room. When gaining the customer perspective, we focus on not only the here and now but also what is value creation's future road map. (See Figure 3.) The picture tells the story. We would like to understand from the customer what it thinks creates value

relative to our thinking (hypothesis versus current). We would also like to know whether the customer sees any potential for us to create more value in the future for the customer relative to the current situation (current versus goal).

Bob Harlan of Owens Corning marketing has a few comments about conducting the interviews with customers: "When we have these conversations it is us talking for 5 percent of the time and the customer talking for 95 percent. It's all about how they make money. And we are clear that making money is not just a margin or revenue conversation; we consider the universe of value. So we ask them to regard their relationship with Owens Corning and think about today how we are performing in the interest of their working capital, their cash position, their waste elimination, their cost position and their revenue position. So we really try to open it up as wide as possible in terms of their business results and how we are helping those business results."

Sales executive Roger Warren says of the conversations' practicality: "It is a simple, 90-minute interview. We've held it with key stakeholders in the organization. I wanted to touch on that because, being a sales professional, it's important to keep it simple, it's important for the process to be clear and understood to the customer, and, most important, it has to be measurable."

The benefits to a national accounts organization

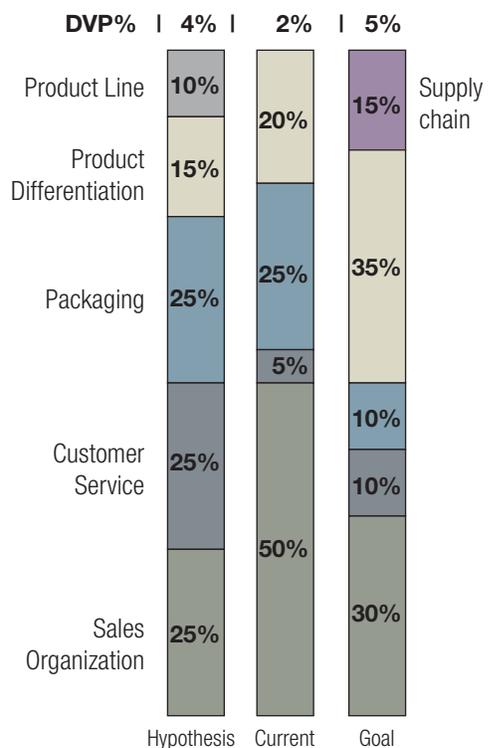
Jim Drew, vice president of national accounts, speaks of the overall benefits: "Conversations we have with customers are many times transactional in nature, tactical in nature. And now they have become collaborative. They have become value-oriented conversations. Nothing

is more valuable than understanding the customer, so it does help us. This process allows us to have those types of discussions.

"One of the key elements of a successful strategic account organization is enrolling your senior leadership in the discussion with our customers. As simple and straightforward as that sounds, as all of us know, it is a task. This process enrolls our senior leadership into the agenda for the customer. Not what we think—but it allows us to share what the customer thinks. There is nothing more valuable than having a discussion with your CEO or president of a division about what the customer values. It also allows you to enable field sales to be able to obtain resources in support of the customer. Now these resources come in many forms – people resources, finances, project-oriented initiatives – but it allows you to get to the specifics very, very quickly and obtain those resources in your business.

"It also drives common language and alignment in all functional areas. As we

Figure 3.



all know, to be successful with a customer, many, many process groups touch the customer. In the case of Owens Corning we have customer financial folks, logistics folks, customer service center, marketing. We have so many functional groups that touch the customer, and it allows us to drive a common language across all of these process groups and allows them to get in the customer conversation and drive value. And with all that being said, it creates speed and execution in the market. And that's what it is all about."

Warren reflects on his experiences and benefits: "Let's move on to what we learned during the interview. First of all, it gave us a clear understanding in the customer's words of how they thought. What did they value in us, and what could we be? The value creation opportunities were very simple, behavioral, and often times when you take new programs or you ask the customer what they need, you are faced with a capital investment challenge. These were very small capital investment opportunities. So what did we do? Collaboratively with the customer we agreed on actions based on opportunities that we had identified during the customer discovery. They were as simple as training, inventory management, tools and ease of offloading products. So we enrolled the key process areas within Owens Corning. Since we had everyone internally aligned on customer discovery, getting things done was much easier. We reported out progress to the customer on a regular basis against milestones. At the end of the project, we took a measurable result and communicated them out."

"So what did the customer get? We created an atmosphere of partnering, that we were listening instead of telling. What did we get? We were rewarded with National Vendor of the Year against 270 of the premier brands in

the United States. We maintained 100 percent of share, and we moved to long-term contracts. The customer discovery changed the contract conversation from a short-term, tactical conversation into an atmosphere that focused on partnering and driving toward a common goal of sales and profit growth."

Moving into execution: the primer for the next article in this series

"The ability for us to aggregate all of the data up and to be able to see themes across multiple customers is

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tremendously valuable," Harlan says. "What this generates for us is a prioritized list across an entire business in terms of identifying what is the No. 1 thing, the No. 2 thing, the No. 3 thing that we can invest in to make the biggest difference for our customers in aggregate. Like many of you, Owens Corning has hundreds of large customers and thousands of customers who are a little smaller. To be able to understand the landscape across hundreds of different customers and address what is the No. 1 thing we can

do to improve their business condition is huge.

"And it's something we can say in a very fact-based way. We can say it with the depth of knowledge that includes the customers who told us and what they told us it was worth. This allows us to get our customers very engaged. It allows us to get our corporation very engaged at all different levels, all different process organizations, with clarity and speed. It just takes the debate out of the conversation. No longer is it the loudest voice in the room. Now we have a fact-based approach. We know what to invest in to help our customers."

Summary

Our experience in the practical work of creating value for customers and capturing our fair share starts with the basics of being able to measure value. When you begin measuring the very essence of business, then your differential value proposition and opportunities to use the knowledge in the ongoing improvement and management of the business are seemingly endless. Doing this in a way that closely integrates sales and customers in the understanding process literally changes a company to become more collaborative. 

Several representatives from Owens Corning and Valkre Solutions Inc. will conduct a session about this topic at SAMAs 46th Annual Conference in April in Chicago. Brian Kiep is an executive at solution provider Valkre Solutions (www.valkre.com) and can be reached at brian.kiep@valkre.com or (773) 575-2631. David Longmuir is customer value creation leader at Owens Corning (www.owenscorning.com).

Additional resources

For more about Owens Corning on this subject in SAMAs library, the editors recommend: Jim Drew, Bob Harlan and Jerry Alderman, "On-demand webinar: winning with customers—how do you know if your customers are making money doing business with you?" Oct. 1, 2009, www.strategicaccounts.org; and Glen Hirschfeld, Kevin Cochran and Bob Rickert, "From commodity status to value-based partner," 38th Annual Conference, April 28, 2002, www.strategicaccounts.org.