



Value Propositions

And now there are two?

BY LINDA WOLSTENCROFT

In traditional strategy work, there are four fundamental Customer Value Propositions: lowest total cost, complete customer solutions, product leadership and lock-in. Experience has shown that businesses successful in growing do a better job in aligning with their Customer Value Proposition than those who do not.

Recently, the Government of Canada has developed the Value Proposition model under its new Industrial and Technological Benefits (ITB) policy for major defence procurement projects. Once implemented, we should see a higher economic value to Canada accruing from our defence purchases. This value should last for decades.

To reflect this, now there are two types of value proposition:

The first type of value proposition is the traditional business concept of **Customer** Value Proposition that is previously described. This type sets out the value that the business provides to its customer.

The second type is as set out in Industry Canada's new Value Proposition Guide. This type sets out the value of what is proposed to Canada and how the bidder will satisfy their requirement of undertaking its business activities in the country.

To avoid confusion over terminology, one way to think of the two types of value propositions is to consider that Canada's Value Proposition is the value to Canada over a long period of time. It is really the **Economic** Value Proposition for the country. The business' **Customer** Value Proposition is the value proposition reflected in the price and technical and management merits of the proposal.

So, how are the two types of value proposition related?

In past Canadian procurements, when the IRB was simply a pass/fail exercise, bidders would focus solely on technical and management as well as the financial aspects of the bid because this was all that was evaluated and would matter for being the successful bidder.

Now, there are three parts a bidder must consider when presenting their Customer Value Proposition to Canada: Technical and Management, Financial (Price), and Industrial and Technological Benefits (ITB) to Canada. This last component, ITB, includes Canada's Value Proposition. Under the Defence Procurement Strategy, Canada has expanded the definition of Customer Value Proposition for Canada to include the Economic Value Proposition.

What does this mean for bidders?

First, one must understand the new requirement. Canada's Value Proposition Guide was published in December 2014 and is available on the Industry Canada website.

Second, one must incorporate the new requirement into their bid model. The old IRB model was only a pass/fail exercise and did not form part of the evaluation so long as the IRB plans were compliant. With Canada's Value Proposition component, a bid is valued notionally at 10% of the entire bid evaluation, now making it an important element of a bid.

Third, one needs to take note that Canada is serious about these economic benefits. Whereas in the past it has been rumored that companies could negotiate their way around the IRB requirements, the plan is

that this will no longer be the case. The winning bidders will have to present a viable plan, and in their long-term business planning they will have to execute it. Penalties on not achieving the plan go as far as potential financial holdbacks on contract payments. This hurts – so one must take it seriously.

Fourth, it will be essential to understand how competitors will act in dealing with these requirements. Companies that form a long-term view and find business cases that continue to give to Canada over the years are the ones that will come out scoring higher on the Value Proposition requirement.

Finally, this change is so fundamental for businesses that have a great deal of business with Canada that I cannot stress enough how necessary it is to update your business strategy. How will your business accommodate the requirements of Canada, as well as the requirements of other global customers? What new partnerships and alliances must you put in place? Which ones should you let go? How will your investments change? How will your activities change?

The result of being a successful bidder is that the business will be tied to Canada for a period of time. Like doing business with any other country in the world, the business must perform on its obligations because one's international reputation is at stake.

The Value Proposition for Canada is definitely one more part of the entire CVP that a bidder must now provide to Canada. While expensive for business, the more Canada accrues benefits, the more we accrue benefits.

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