The Dollarization Discipline

How Smart Companies Create Customer Value . . . and Profit from It

Jeffrey J. Fox
Richard C. Gregory

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Rick Gregory dedicates this book
to the team at MKM Group, especially the CEO.

Jeffrey Fox dedicates this book to Marlene.

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Preface

This book is about a concept that, on its surface, is simple to comprehend. It is about understanding the *financial* impacts a product or service has on its buyer. Readers may conclude this means the book is about "total cost of ownership." In fact, it is . . . in part. But it is also about something bigger. Traditionally, as the phrase suggests, "total cost of ownership" focuses only on *cost*. Cost reduction and cost avoidance are important aspects of dollarization, but they are often only half the story. Dollarization also requires measuring the financial impact of noncost benefits. Benefits such as increased market share, increased sales volume, and increased pricing power also must be dollarized.

Further, companies often use "total cost of ownership" and similar concepts in limited circumstances. An important goal of this book is to demonstrate how dollarization should be a *discipline* that organizations apply across a broad set of sales, marketing, and management activities. Most marketers would agree that a business should be customer-focused or customer-driven. Dollarization forces companies to behave this way. It does so by helping companies maintain steadfast focus on the *financial* performance that is the ultimate arbiter of their customers' success.

So while dollarization may be an easily understood concept, it can be difficult to put into practice. But our experience in helping great companies make dollarization work has convinced us that it is well worth the effort.

Introductory Notes

A NOTE ON TERMINOLOGY

Throughout this book, we use terminology such as "supplier," "vendor," "customer," and "product" to describe the buyer/seller business relationship. These words may suggest a focus on tangible products, exclusive of intangible or intellectual services. This is not the case. Nearly every point we make in this book can be applied to either a product *or* a service, without distinction. We find that tangible product examples allow us to more clearly articulate the observations we seek to share, and we use them solely for this purpose. Several chapters and specific service examples should clarify this.

A NOTE ON CASE HISTORIES

Every case example we use in this book is based on an actual business situation. In many cases, the companies involved have chosen to remain anonymous, preferring to keep their competitive strategies nonattributed. For these cases, we have substituted fictitious company names. The use of such invented names is indicated at the start of each of these cases.

We thank all the many excellent companies, managers, marketers, and salespeople who have made these events happen and have shared them with us.

SECTION 1

INTRODUCTION TO DOLLARIZATION

There is hardly anything in the world that some man cannot make a little worse and sell a little cheaper, and the people who consider price only are this man's lawful prey.

—John Ruskin

It's unwise to pay too much, but it is more unwise to pay too little. When you pay too much you lose a little money—that is all; When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do.

—John Ruskin

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