

Whitepaper on Value-Added

The Value-Added Philosophy

A True-North Path to Greatness



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TRAINING

Value-added is neither a cliché nor a gilded lily but often misunderstood. It is neither a chic nor a whimsical attempt at standing out. There is nothing faddish about value-added; it has been around for a long time.

From pre-historic peoples that decorated cave walls with images of their time, cooked with fire, and invented the wheel to today's high-tech living, humans have been adding value to everything they touch. Adding value to our world is as natural as inhaling and exhaling. That our breath contributes something to the atmosphere we occupy is no scientific accident. We are designed to do more than suck air and leave residue as we walk this earth.

What Is Value-Added

Technically, value-added is the difference between raw material input and finished product output. Yet, this commonsense definition resonates with most people: **It is everything you do to something from the moment you first touch it until you transfer it to someone else or transform it into something of greater value.**

Value-added sounds like a contemporary term, but it has been around for a while. The first, formal recorded use of the term was in 1790 by Tenche Coxe, who was appointed by Alexander Hamilton to chair the North American Census of Production—the predecessor to today's IRS. Value-added was a metric to measure manufacturing activity for taxation. Conceptually, value-added has been around longer than this.

In 1776, Adam Smith argued in the *Wealth of Nations* that value increases with effort: "The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it." Also in 1776, Thomas Paine wrote in *The Crisis*, "What we obtain too cheap, we esteem too lightly: it is dearness only that gives every thing its value." Dearness comes from sacrifice, which comes from effort, the grist of the value-adding mill. In 1749, the Cajuns of New Orleans coined the term "lagniappe" to mean a little something extra.

Even these examples were relative newcomers. A cursory reading of history reveals that Greek philosophers recognized the futility of fruitless labor in Sisyphus' pushing a boulder up a hill for all of eternity, only to have it roll down once he reached the top. That we are born with special gifts and unique talents to be used for the greater good—not hidden under a basket, buried, or squandered—is a biblical mandate, not just secular speculation.

Examples of adding value continue to reach across time, as contemporary, multi-disciplinary arguments support the premise that adding value is a vital part of nature and man's destiny. Environmentalists argue that we are all part of an interconnected eco-system, a synergy where all parts add value to the whole. Trees draw water through their roots and leaves; extract carbon dioxide from the air, and with sunlight acting as a catalyst on cells containing

chlorophyll, chemical reactions release oxygen, which sustains humans and other animals.

Psychologists argue that one of our fundamental needs is the need to give back—to regenerate. This belief is rooted in humanistic psychology: We are evolving and emerging organisms. On our path to self-actualization, we create our own form of art, adding value along the way. Humans search for meaning in life, often finding it in the difference they make—the value they add versus the material things they attract.

Biologists teach that we reproduce to give back to our species. Each generation refines and perfects the organism to engage its environment. Darwin's theory of adaptability of the species is the key to its survival, where adapting means changing—adding and subtracting. Each generation adds something to the previous generation to preserve the species.

Value-added has not escaped the clutches of pop culture. Even though its rock-deep roots burrow into antiquity, today there are 125 million hits on Google for value added, 1,963 books with value-added in the title, and value-added has infiltrated business, economics, finance, investing, education, and government.

Why Value-Added

This topic is relevant and timely because adding value is the path for individual and organizational viability. A real concern is not adding value, and the consequences are as clear as they are ominous.

A lack of creativity, innovation, and the herd mentality have led to the commoditization of products and convergence of services. These have businesses scrambling for relevance, with price being the only differentiator among many competitors. The definition of a commodity is a product differentiated only by its price. Look-alike products and services mean companies are taking their lead from competitors versus their own imagination. These external benchmarks yield a misery of nearly identical choices for customers, complicating the buying experience, and reinforcing the commodity stereotype.

Because customers have fewer resources to work with, they must outsource innovation and problem solving to organizations with the expertise. Customers continue to demand greater value from suppliers. This dependency on outside resources demands that suppliers become a fountain of value-added for customers.

As pundits search for the next great business trend, there is a misconception that value-added is a well-worn cliché that lacks 21st century relevance. Clearly, there is much confusion and trivialization of this timeless human phenomenon. Value-added is more than a trend; it is one of the most stable and predictable of human activities.

Comfortable and swollen organizations face competitive threats from global sources that are hungry to demonstrate their initiative and imagination. Lethargic organizations, bloated with sacred cows and legacy value-added, sneer at challenges to their viability. There is still too much waste in organizations because guardians of the status quo stonewall change.

The impact on organizations goes beyond marketing threats to include something more insidious. Employees become as lethargic as their organization's culture, which means they work below potential—personally and professionally. They waste time and energy on non-value producing activities, while diluting their notion of excellence. Doing just enough to get by, and keeping the lights on re-define success. This results in small thinking and is far more injurious to an organization than a loss of market share. It signals the loss of a cultural identity that makes organizations great—innovation, initiative, and a passion for excellence. When one stops reaching, atrophy sets in. What begins as resistance to change results in inability to change. In a world that changes constantly, not adapting is a prescription for failure.

Technology is a burden and a blessing for value-added. On the one hand, we now have tools that can help us make better, quicker decisions about the efficacy of our efforts. Technology has opened the doors for even greater value. At the same time, it is a burden when it handicaps the people using it. Neuroscientists are seeing a disturbing trend—the slow drip of brain drain as people are becoming shallower. The flashes, bits, and bytes of data that the Internet provides is changing the way people process information. Multitasking is spawning a generation of attention-deficit disordered employees. This manifests in a lack of in-depth thinking that comes with focus, an important component of adding meaningful value to any effort.

The person or organization who figures out a way to harness the collective genius of his or her employees will blow away the competition.
Walter Wriston, Former CEO Citibank

For organizations, people represent the single unique dimension of value, as there is no commodity in creativity and no traffic jam on the extra mile. Companies can copy another company's product, so that the differences are almost imperceptible and still not violate patents. One organization can emulate another's bundle of services, but the single thing that no one can copy is people. People are the last great hope for organizations to stand out in this shrinking world.

The Value-Added Value Proposition

Humans are value-creating organisms; it is our nature to add value to our surroundings. We never fully unleash the potential of humans until we put them into positions and situations that give them the opportunity to release their genius and express their uniqueness. People want to add value. People need to add value. It is how we find meaning and purpose. Imagine how

people deprived of this opportunity must feel when they discover that their efforts are as fruitless as Sisyphus'.

When you embrace a value-adding philosophy and apply it to all areas of your life—personal and professional—you will tap into your potential and discover what you were meant to be. The benefits of this philosophy include:

Differentiation—you will stand out from the crowd. The uniqueness of your potential allows you to stand alone. It turns up the contrast between you and the rest of the pack. Those who do just enough to get by blend in with the crowd, camouflaged by their mediocrity.

Intrinsically satisfying—the most powerful form of motivation is the intrinsic satisfaction you derive from performing at your peak. These peak experiences are self-reinforcing because you are operating at your potential. You experience your personal greatness, and it feels great.

Externally rewarding—the return on your time investment is significant as you invoke the boomerang effect—you get back what you put into life. This, coupled with the intrinsic satisfaction from performing at your peak, ensures your continued success.

Create something great—your art is on display for the world to see. You are sharing with the rest of us that part of you that stands out.

If a man is called to be a street sweeper, he should sweep streets even as Michelangelo painted, Beethoven composed music, and Shakespeare wrote poetry. He should sweep streets so well that all the hosts of Heaven and earth will pause and say, "Here lived a great street sweeper who did his job well." (Martin Luther King, Jr.)

Definition of the Value-Added Philosophy

The Value-Added Philosophy is revealed in these words: **Do more of that which adds value and less of that which adds little or no value.** It is making something better by your involvement in it. The Value-Added Philosophy applies to all areas of our lives.

Relationships with others—do we build each other up or do we break each other down? What value do I contribute to the people around me? John Donne wrote that none of us is an island. Synergy is the energy that we bring to a situation, and it is always potentially greater than the individual energy any one of us brings.

Career—am I engaging in activities that add value to my career? Do I attend professional development programs, read and study career-enhancing materials, and invest time in those areas that will advance my career? Our research

found that 80% of the things that account for an individual's success are things over which people have some control.

Time management—do I fill my days with priorities that move me closer to my goals or simply fill my days with activities that keep me busy? Setting priorities and remaining focused on those priorities must become your personal time-management goal.

Physical—do I engage in a healthy lifestyle that adds value and quality to my life or do I do things to my body that will end my journey prematurely? Why would I persist in engaging in those physical habits that would slow me down versus those that add value to my life? The most practical time-management tip of all is to give yourself more time to be successful.

Emotional—do I make it a habit to focus on the positive emotions in life or dwell on the more negative emotions that add little value to my life? Negative emotional baggage adds no value to your life. Why carry it with you on the journey? Your past is not your potential.

Spiritual—do I live a spiritually fulfilling life that requires my giving as much as my taking? Can I believe in something bigger and better than me? Do I view myself as part of something bigger? Am I willing to subordinate my ego to a power greater than me?

Community—am I a viable, contributing member of my community or am I simply a taker? What am I giving back to those around me? Humans begin life with a need to give back. If you doubt this fundamental human need, watch a parent feed a baby. As they make a game of it, the little one feels the need to share his or her food with the parent.

Dynamic Forces in the Value-Added Philosophy

There are three dynamic forces in the Value-Added Philosophy—adding, shedding, and extracting. **Adding** is doing more of that which contributes momentum and value to our initiatives. **Shedding** is the economy of effort by eliminating waste and inefficiency. **Shedding** is pruning; stripping away that which adds little or no value. To live the Value-Added Philosophy, we do more of some things and less of other things.

Extracting is the value we receive from the value we create. It is the payoff or the return on our investment. Without this payoff, we perceive a great inequity in our efforts and are de-motivated to continue adding value. You can view this payoff as the dividend of your investment. There is an important distinction here: Dividends follow investments. If you want the payoff, you must first make the investment. This cause-and-effect aspect of the Value-Added Philosophy is predictable and stable. You will not extract value from your efforts unless you first contribute value. This relationship keeps your focus on adding first and extracting second.



The Value-Added Philosophy Is True North

True North is based on the earth's axis, not magnetic pull. True North metaphorically describes one's unyielding principles and values. It is who we are at our core. It keeps us oriented in a world that at times is spinning out of control. When you know what you believe in and live by it, you are traveling True North. Intrinsicly motivated, value-adding behaviors come from True-North values like humility, courage, and a commitment to excellence in all that we do, and they are reflected in these attitudes:

Humility is the most powerful paradox in business.

We cannot get better until we first admit we can get better; everything can be improved.

We must put our best work on display for the world to witness.

I am more curious about potential than concerned about the competition.

I will judge my success by internal benchmarks of excellence.

I have been blessed with unique talents and gifts endowed by our Creator to play an important role in this universe.

We is greater than me. I am a part of something bigger and better than myself and will subordinate my ego for the greater good of serving.

Better is good; even small differences can result in big wins.

The key to relevance is continuous improvement, ongoing development, and evolution.

Ernest Hemingway wrote that courage is "grace under pressure." Those who live the value-added philosophy create with courage. They risk failure and abandon the security of the status quo in pursuit of individual and organizational greatness.

How to Conduct a Value Analysis

A value analysis is a process to determine whether you should act or not. This is your go/no-go decision, whether it is prudent to forge ahead. This decision begins with discernment—knowing what to do and more importantly what *not* to do.

What-to-do translates into effectiveness because you are working on the right stuff. *What-not-to-do* translates into efficiency because you are doing things the right way, eliminating distractions and inefficiencies.

When is enough, enough? What is the difference between maximum value-added (which may be overkill) and optimal value-added (which is just right). A maximum-performance attitude drives the optimal value solution and is reflected in the question: **What is the most we can do to add meaningful**

value versus what is the least we can get by with? See the insert at the end of this whitepaper for the five-step value analysis model.

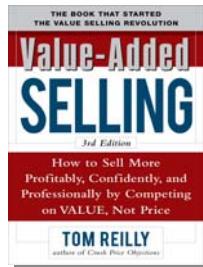
Conclusion

Value-added is not a new concept. It has been around since humans first realized that they could make something better. Great thinkers throughout history have commented on the human phenomenon of adding value. Our definition of the Value-Added Philosophy is that we seek ways to do more of that which adds value to our lives and less of that which adds little or no value to our lives. This philosophy applies broadly to all areas of our lives—personal and professional.

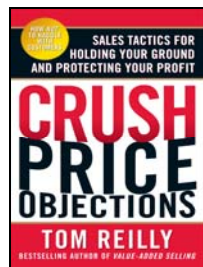
About the Author



Tom Reilly literally wrote the book on *Value-Added Selling* (2010, McGraw-Hill). His pioneering work in this area has earned him the reputation as the global expert on Value-Added Selling.



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Five-Step Value Analysis Model[®]

This five-step value analysis model is designed to help you make your go/no-go decision:

1. Does this add value?
 - a. If the answer is "yes" move on to question number two.
 - b. If the answer is "no," no further action is required.
2. How, where, and for whom does it add value?
3. At what cost does this action add value? This is another way of examining and assessing the sacrifice, input, or pain required to achieve the outcome.
 - a. What are the direct costs? This is the forthright, obvious expense in time, money, and effort to achieve the desired outcome.
 - b. What are the indirect costs? This is often expressed as the opportunity cost—the sacrifice of alternative ways that you could have used these required resources—all other ways you could have invested the time, money, and energy.
 - c. Threat assessment and risk analysis—in addition to the costs, where and what is the risk in attempting this and how it makes us vulnerable?
4. What is the payoff? This is the return-on-investment analysis.
 - a. What is the immediate, short-term gain?
 - b. What is the long-term outcome (beyond three months)?
 - c. Can we perform breakeven analysis?
 - d. Where and when do we achieve breakeven?
 - e. What is the payoff beyond this and for how long?
 - f. Opportunity value—what will we be able to do because of this action that we cannot do now (and what would we not be able to do without this action)?
5. Is it worth it? Is there equity in this action; is it worth the time, energy, and money we invest to create the outcome? Will the customer pay for this action?
 - a. Yes—then, go for it
 - b. No—then, stop

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