

Value-Based Pricing Is More Than a Pricing Strategy

Value-based pricing is not just a pricing strategy. It is a go-to-market approach. Deploying value-based pricing as a pricing strategy will bring you good results, but doing it as a holistic value-based approach will bring great results. In this article, the author explains the steps for successful implementation. Author Stephan Liozu, Ph.D., CPP, (www.stephanliozu.com) is the Founder of Value Inruption Advisors and specializes in disruptive approaches in innovation and value management. He earned a PhD in Management from Case Western Reserve University and can be reached at sliozu@case.edu. He is leading a workshop on Economic Value Estimation Models at the upcoming PPS Fall Conference in Las Vegas, October 21-24th, 2014.

ture, and many roadblocks during the execution and proliferation phase. Their results might be good enough to continue the process, but they are not great. In their organizations, the level of adoption of EVE® as part of the value-based pricing process varies by divisions and/or by functions. While it is fairly simple to learn the mechanics and the mathematics of EVE® after a good training session, it is more difficult to understand how to use this method in the marketing process and how to leverage the outcome of EVE® in the commercial process.

We all know and understand the power of value-based pricing. We are all able to find the definition and process behind the methodology. We have all read about the difficulties of implementing it in organizations. So why is it still so difficult to do? Why are pricing professionals still struggling with the cross-functional execution of the methodology? What makes it so difficult to operationalize?

Value-based pricing is a go-to-market strategy
 The reality about value-based pricing is that it is not just a pricing strategy. It is a go-to-market strategy that requires organization-wide commitment, top leadership attention, organizational alignment, and a good dose of resilience. Value-

based pricing is a customer-focused approach that touches a lot of complex and profound dimension of a firm's customer value proposition: segmentation, differentiation, dollarization, value communication and much more.

At the heart of value-based pricing is a different value mindset that requires a strong alignment between all customer-focused functions: innovation, marketing, pricing, and sales.

Putting customer value at the center of your pricing models requires putting customer value at the center of your innovation, marketing and sales models as well. My view is that it is fairly impossible to fully deploy value-based pricing without having these functions trained, committed and aligned on the concepts of value creation, value quantification, and value capture.

One way to find out if your marketing team is on board is to check your firm's communication materials and to search for the use of dollarized value messages. Chances are that product data sheets, marketing brochures, and website pages do not list true customer benefits and their dollarized contribution to the customer's bottom line. Most times, marketers understand the outcome of the EVE® process but are not willing to promote

Value-based pricing is probably one of the most complex methodologies to design and execute across an organization. Over the past three years, I have had the privilege of working with many organizations and their pricing teams as well as meeting many pricing professionals at pricing conferences. For most of them, the feedback on the design and deployment of value-based pricing and the economic value estimation process (EVE®) is the same: they understand the power of the methodology; they are full of good intentions; but they are facing a lot of organizational resistance, strong silo thinking in their organization struc-

Value-Based Pricing is....

..... A GO TO MARKET STRATEGY



**Segmentation
 Differentiation
 Customer Value Modeling
 Value Communication
 Value Selling**

the dollarized customer impact because of the lack of confidence in the evaluation, because they were not part of the process, or simply because the legal folks did not allow them to do so. Whether it is a lack of courage or a lack of confidence in the data, value-based pricing is not fully deployed if you stop short of promoting the value you create for your customers. Then, if the promotion is not done in selling materials, it is hard for the sales team to sell on value using the quantified savings or revenues generated for their customers.

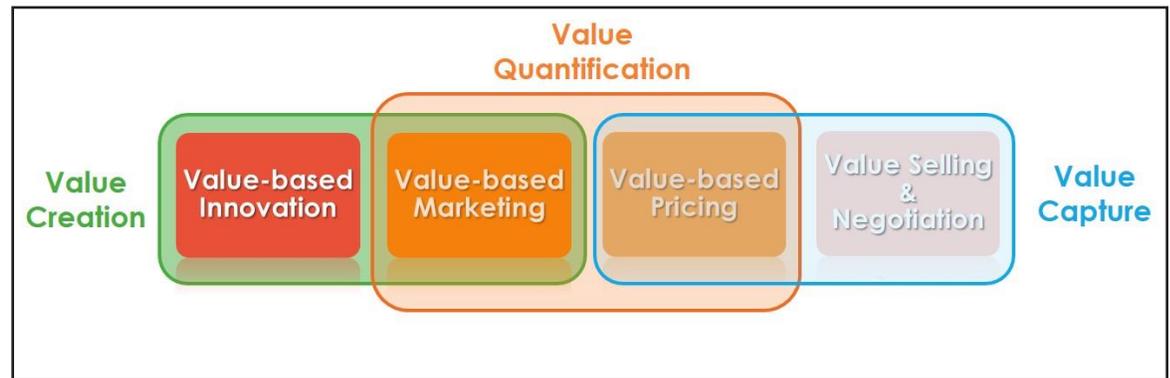
The process does start with the innovation process as your organization's innovators create new pockets of customer value in the front-end of innovation. Value-based marketing and technical programs in turn articulate compelling value propositions and value messages to the market using the outcome of the innovation work and of the dollarization process. Pricing teams bring more science on how to measure and dollarize customer value using EVE[®] as well as on how to deploy pricing tactics that will prevent leaving money on the table.

Finally, sales organizations negotiate for value and enter into value conversations with customers. You can then see the need for collaboration and alignment in the use of value data and value messages. I often argue that customer service teams, technical teams, R&D teams, and supply chain teams should also receive training on how to value message and learn their organizations' true differentiating factors. Having everyone singing the same "value song" helps with the cultural transformation and the mindset modification.

Holistic value management framework

Paying attention to customer value in the innovation, marketing, pricing, and sales process is a must-do, but this is not the

Figure 2



only element to pay close attention to. Marketing and pricing professionals also need to make sure that the three steps of the value management process are equally managed.

First customer value is created or extracted. Then it needs to be measured using the EVE[®] process. Finally it needs to be captured during the commercial interactions. The measurement process is a must-do activity prior to deploying value-based tactics. Measuring is all about being in control. It is about measuring how much economic value a firm brings to its customers and how much is shared with them without leaving money on the table. It is all about not flying blind.

The combination of the functional processes and the value management framework makes the deployment of value-based strategies a transformational and sometimes tenuous initiative. It does require breakthrough thinking during the road mapping and design phases. It also requires a strong focus on execution when projects are implemented in pilot stage first and then across an organization. No need to say that investments in transformational change programs are not optional.

In the end, the process requires the development of unique organizational capabilities as follows:

1. **Technical capabilities:** value-based pricing and EVE[®]: segmentation, value quantification, collecting data, interpreting the data, building value models, pricing for value, building

proprietary tools, etc.

2. **Cultural capabilities:** cross-functional collaboration and communication, alignment, courage and resilience, sense of execution, change management, etc.

As you can imagine, technical capabilities are easier to acquire, develop, and deploy. They are, to a certain extent, imitable. The secret sauce for the deployment of value-based pricing and the operationalization of EVE[®] across an organization is in the soft factors. It is harder to imitate high performance teams and effective cross-functional collaboration. In the end, the combination of both create unique capabilities and competitive advantage.

Closing thoughts

So you get it. **Deploying value-based pricing as a pricing strategy will bring you good results. Doing it as a holistic value-based approach will bring great results.** It will align your customer-focused processes and will help you with the transformation of your commercial culture. It will change the DNA of your organization to be more focused on customer value.

Value-based pricing is not just a pricing strategy. It is a go-to-market approach. It is way of life for your organization and all its commercial actors. I often call it a secret weapon when it is deployed mindfully and to its full potential.