PROFESSIONAL PPS PRICING SOCIETY™

October 2019

Pricing Advisor™

Contents

Ten Golden Rules of EVE Models

by Stephan Liozu, PhD

The purpose of this short article is to share best practices for EVE models with the pricing and marketing communities. Stephan M. Liozu, PhD is Chief Value Officer of the Thales Group (www.thalesgroup.com) and an Adjunct Professor & Research Fellow at the Case Western Research University Weatherhead School of Management. He holds a Ph.D. in Management from Case Western Reserve University (2013), an MS in Innovation Management from Toulouse School of Management (2005), and an MBA in Marketing from Cleveland State University (1991). He is a Certified Pricing Professional (CPP), a Prosci certified Change Manager, and a Strategyzer Business Model Innovation Coach. He authored five books, including his most recent entitled Monetizing Data (2018). He sits on the Advisory Board of LeveragePoint Innovation and of the Professional Pricing Society.

In 2008, I read Jeff Fox's book called *The Dollarization Discipline*. This was my first introduction to the science and art of dollarizing competitive advantage and differentiation. At that time, I was well versed in marketing and strategy and had basic knowledge of pricing.

Reading this book open my mind to the science of value-based pricing, value quantification, and dollarization. It was the beginning of a journey that has lasted 11 years so far. During this decade, I have studied and researched value-based pricing inside and out and have been deeply involved in designing hundreds of quantified customer value models or EVE (Economic Value Estimation) models across various industries and regions (see Figure 1).

The purpose of this short paper is to share best practices for EVE models with the pricing and marketing communities. I call them my Golden Rules. These are the ten practices I frequently have to remind people to keep in mind when we dollarize and brainstorm on specific value drivers. This list is my list based on ten years of experience in dollarizing. It is not an exhaustive list by any means but it is a good start!

1. Contextualize your value model and quantify within the context: The context of your EVE sets the frame for the quantification work. That includes the customer, the customer segment, the geography, and the offer under consideration. Groups often diverge and end up mixing up contexts across different value drivers within the same EVE model. So, from one value driver to another, the context changes. I often have to remind them to go back

➤ CONTINUED on 3 ➤

PPS Happenings

Click on event graphics below or go to the PPS website at PricingSociety.com for more information on programs and events.

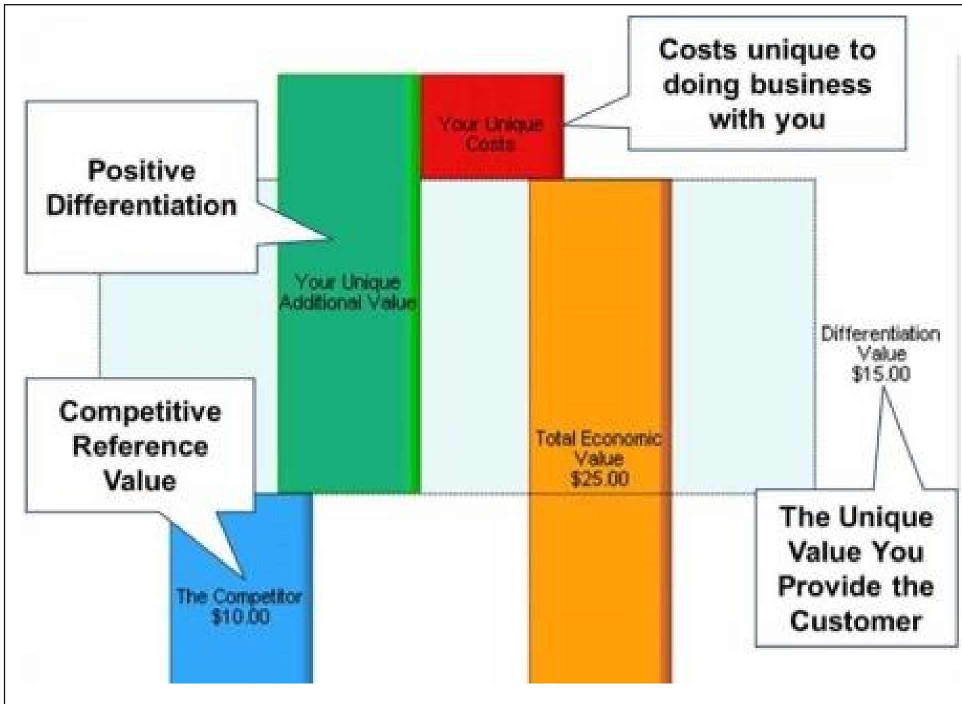
to page one of the templates we use and to refocus. The most common situation is to start the work with one customer in mind and then to be stuck when extrapolating to all customers during the value quantification process. Stick with that one customer only or that one customer segment. Extrapolation and generalization come later in the value management process.

2. The unit of analysis and time of analysis need to match the customer's daily business: On the same page one of the template, we discuss the unit of analysis and the time of analysis for the EVE model. This is where it often gets complicated and groups have difficulties agreeing. Both components of the value model need to be set and kept the same across value drivers and for the duration of the group work. The unit of analysis matches the customer's value metric (i.e. how do customers measure their costs, profit, or the outcome of their business). So if a customer thinks in terms of vehicles that are produced, we cannot produce an EVE per tire. The same goes for the time of analysis. Some customers think in terms of 3 to 5 year increments. Others might think in terms of the lifetime of the product they buy. Both unit and time of analysis need to reflect the customer way of doing business and their vocabulary.

3. Never dollarize a product feature but always dollarize a customer benefit: I think I have repeated this golden rule one million times! The sequence is from product attribute or characteristic to customer benefits to formula to quantification. So, if an engine goes 2500 RPM versus one that goes 2000, we do not dollarize the extra 500 RPM but the outcome benefits which might be increased yield or greater productivity. In product centric and manufacturing environments, it is a hard habit to break. The translation of product competitive advantage to customer benefits is essential in customer value modeling and EVE. This is a very challenging step for technical-focused professionals.

4. Dollarize 3 to 5 value drivers for a value proposition, not more: Understanding and quantifying customer value requires prioritization on what is essential for the customer's business. A good value proposition is not a long and hypnotizing list of value drivers. It is maximum 3 to 5 value drivers that are carefully packaged in a well delivered value story. The difficulty is in selecting the right value drivers. When I manage dollarization hackathons, we usually go through two rounds of discussion to prioritize and extract the right differentiators and customer benefits. First, we use the VRIO Framework (Valuable, Rare, Inimitable, Organized for Success) to select the 3 to 5 true differentiators. These get translated into customer benefits. We then use the 4C Framework (Customer-pain centric, Credible, Commensurable, Compelling) to select the most critical 3 to 5 customer benefits which will move on to be fully quantified. Remember that your customers want to hear value propositions that are focused on their problem, are very compelling, and can save them money!

Figure 1



Source: LeveragePoint

5. Carefully select the order of your value drivers in your analysis and story delivery: The 4C framework was also developed three years ago based on the feedback of dozens of people who had done dollarization exercises with me as a coach. The main issue is to figure out the order that should be used for the value drivers. My golden rule was created to make sure that the key customer benefits that are quantified have a highest score in the 4C Framework with a minimum of 9 out of 10 for the first C which is focused on customer-pain centricity. Again, teams struggle with the value driver sequence and which one to start with in the delivery of the value proposition in front of customers. I always recommend starting with the big bang value driver (i.e. the most resonating and compelling). I tell teams to revisit the value proposition they built for this segment or specific customer and to revisit the customer problem. Additionally, if the first value driver is powerful enough to convince the customers to buy from you, you do not really need to spend too much time on value drivers 2 and 3. Simpler is often better. Some of the story can be delivered in writing and some during presentation. That is where value selling comes in play.

6. Focus on the flow and credibility of your dollarized value proposition and focus on the sequence of the CVP delivery: Value proposition design has a lot to do with the delivery of a great story. The same goes for an EVE model. It is nothing else than a quantified value story. The quantification part of the work is a bit messy and requires lots of iterations. That work in progress is never shown to sensitive internal stakeholders or to customers. During dollarization hackathons and EVE workshops, I ask teams to deliver a quantified storyline in 3 minutes. It is a very hard exercise. Some people like to spend time in the nitty gritty details of the calculations. Others often forget to contextualize the model and explain the critical assumptions. Story delivery is part of

➢ CONTINUED, next page ➢

the value modeling process!

7. Price and costs never enter your EVE models: The objective of doing an EVE is to be able to derive the right price level. Therefore, the price of the offer we build the model for is not included in the model. The price of the alternative does get factored in as the reference value. I often get confusion about negative differentiation as being the price of the offer. That is not the case. These are different concepts. Similarly, the cost of your offer does not play a role in the design of an EVE model. You should be able to build this model without cost information. The reality is that when the price is set at the end of the price analysis, costs enter into the decision. Remember the 3Cs of price setting: customer, cost, and competition.

8. Focus on both positive and negative differentiators and value drivers: When conducting internal EVE and dollarization workshops, it is absolutely necessary to study both the positive and negative differentiators of your offer versus the alternative. It is essential for team to have candid discussions of what makes their offer better and what makes it worse versus alternatives. That does not mean that we would volunteer all negative differentiators in front of customers, but it is best to be ready in case educated customers bring these up. When selecting the offers to dollarize in groups, be mindful in selecting offers that are somewhat differentiated (meaning those that have move positive differentiators than negative ones). Bottom line: it is not realistic to present quantified value propositions to B2B customers without mentioning potential negative differentiators.

9. Do not dollarize to reach accuracy and perfection but to be credible and have a good story: During working sessions, I often witness groups arguing about small numbers or decimals. The goal of dollarization sessions is not to reach 100% accuracy. It is to reach agreement around a number range or a rounded number. Whether we save the customer $1,500 or $1,458.78 does not matter. What matters is that the customers acknowledge there is value to be shared and they want to investigate that with you. You do need to find and use the correct formula for the quantification exercises. So during EVE workshops, I remind participants to focus more on the logic and credibility of the value story and less on the number accuracy. Eventually, when you reach more maturity in value quantification, I recommend you use detailed value calculators by end-use application or by customer segment. These ROI, Value or Total Cost of Ownership calculators usually have greater levels of accuracy.

The reality is that when the price is set at the end of the price analysis, costs enter into the decision. Remember the 3Cs of price setting: customer, cost, and competition.

10. Document your assumptions and hypotheses for internal discussions but also for external disclaimers: This is a must-do activity during EVE workshops. I have two extra pages I always use in the dollarization template. One is to list assumptions and hypotheses for the model and the value drivers. The second one is to list the actions that need to be taken to further develop the EVE model within 45 days. Doing EVE models often requires putting your offer in customer situations or scenarios. In fact, you will dollarize for the most common customer applications or uses of the product or services. Your story will often list a set of very important assumptions. In some value-based marketing materials, we also list some disclaimers such as "calculations assume normal wear and tear in the application." When value models are worked in teams, new members might come in and pick up the work where others left off. Assumptions and hypotheses are essential for continuity of work.

These ten Golden Rules are the most common points I have to emphasize and reinforce in training and workshop sessions. I wanted to document them for you so that you can also share them with your multi-functional teams when you start your EVE activities. Remember that value quantification of dollarization is only one of the steps of value-based pricing. There are many additional Golden Rules to consider when we deploy the six steps of value-based pricing for an offer. That is a topic for another time. In the meantime, you should practice, practice, and practice some more. That is the best way to get better at building EVE models. ❖

The Pricing Advisor™ is the monthly member newsletter of the Professional Pricing Society. If you have feedback regarding this newsletter or want to contribute an article, please email: editor@pricingsociety.com.

Editor: ....Rebekah Wortman, PPS Marketing Publications Editor

Publisher:.............. Kevin Mitchell, PPS President

For all other inquiries, including subscription and PPS membership information, please contact:

Professional Pricing Society
3535 Roswell Road, Suite 59
Marietta, GA 30062 USA
Tel: +1.770.509.9933
Web site: PricingSociety.com
E-Mail: contactus@pricingsociety.com