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RESEARCH ARTICLE

Quantified value first, then price: realizing the positive impact of a value pricing strategy

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Abstract Creating a value pricing culture and methodology requires more than just a CEO's edict. It requires a thorough look at the people, processes, technology, and culture of your company. Once you have analyzed and challenged yourself if you create real customer value, then you can look at ways to enable customer's willingness and ability to pay for value by quantifying your value and entering into value- or performance-based agreements.

Keywords Value-based pricing · Value-based selling · Value quantification · Pricing strategy implementation · Quantified value proposition

Current situation

Great job—you should be proud that your company is following a value-differentiation strategy. It's the only way to create a long-term, sustainable competitive advantage. Of course, now your company needs to price and be rewarded for the value you're delivering versus your competitors. However, your sales team is resisting and reports back that the market is pressuring for price discounts and that procurement doesn't care about your "value." So now that you've done the price setting, how do you get the salesforce to realize that price, without refunding it to clients as larger "discounts" or as extra "free" services?

Over the years, I've worked with and discussed all things "value" with one of the original "value merchants," James Anderson of the Kellogg School of Business at Northwestern. He noted through his research, interviews, and consulting engagements that many CEOs declared that they were going to take the value strategy to the market but that most if not all never realized the full reward from their efforts (Hinterhuber and Snelgrove 2016). What could be the reasons for why such a strategy was not realizing the desired results?

Before going into the areas of improvement to help sales realize the value of the strategy, let's make sure we're measuring all the possible ways to realize those benefits. Of course, higher prices and margins are assumed to best measure the realization of a value strategy. However, the value realized for your company could come from less discounting (effective higher net prices), more market share with customers (if I prove my value, I earn a higher share of wallet), faster sales cycles (I've developed a customized business case to help you justify to your management that the investment in my solution will drive higher profit for your company). The way you get paid for value can be different with different customers.

Why is it so hard to price for value and realize that value?

First, a value pricing strategy needs to be part of your company's holistic strategy. Will you be the value leader, create more value, communicate value, quantify your value, and then get paid for that value? Or will you be the company that pays value lip service but for whom it isn't a core strategy? Is your CEO talking to investors and customers about the value and at the same time messaging

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sales differently, saying "load the factories… get any order"? If so, this miscommunication will render the strategy ineffective. Once you start running a value strategy as a culture-change project with value pricing being only one of several aspects needed to gain your just reward, you will be much more likely to succeed. Here I take from my experience of our company becoming a Six Sigma operation. It had a key sponsor, a full-time program manager, focused measurements, C-level buy-in, employee recognition and rewards, among other aspects. Six Sigma succeeded when it became a how-we-work mindset, not a standalone separate program.

Figure 1 shows all the activities and support that a company truly needs to address in order to get paid for value. The experiences of marketing guru James Anderson, my experience as a global vice president of value for 15 years at a global industrial engineering firm, and our numerous discussions with other practitioners and academics revealed a common thread. Too often, less successful companies focus only on *the ability to sell value* area of competencies and tools. We found that companies achieved higher results and satisfaction with their value pricing strategy when they viewed this as a culture-change program, and thereby looked also at the constant reinforcement and the *want to sell value* along with the initial ability aspects listed in Fig. 1.

The starting point—where the CEO announces that as a company value will be created, a tool to quantify value for customers is built, training has been given on value selling, and so forth, to sales, and the CEO sets a target of cases created for all to meet—seems to have all the ingredients for a winner. Upper management feels that now it is all about implementation. Management then uses both the carrot and the stick approach. Some companies reward or "punish" sales for quantifying so much value or creating so many value cases. My experience is that this by itself doesn't work. Someone said that "the more you measure something the worse it gets." The goal was to have a growing library of well-documented value-realized case examples to use with other customers; however, as quantity becomes the focus, the database is filled with examples of simple cost avoidances (that all your competitors can also perform, such as free training, shipping) that salespeople create with the goal of just hitting a targeted number of uses. The value of the tool dramatically decreases, feeding upon the argument that customers don't care about your value. Targeting quantity, not quality, starts a vicious cycle.

Customer value has now been added as part of your new product or service conceptualization process; however, projects get pushed through to the next gate by throwing out "we think this is worth a *zillion dollars*" for a customer. The focus becomes the number of new offerings released to the market, not how well those new offerings create customer value and then how well they are received by the market.

"Value" is even added to your structured sales process; your customer relationship management system has a box to be ticked to show that you did value selling. You've created a calculator (doesn't mean it's good, clear, or realistic); then, at a sales meeting, some time is allocated to remind the sales team to sell that value.

"Initial value training" is squeezed into a single sales meeting; as we all know, for training to be effective it has to resonate, be applied, practiced, refined, and updated. As a once-and-done, it gets pushed to the back of the mind like

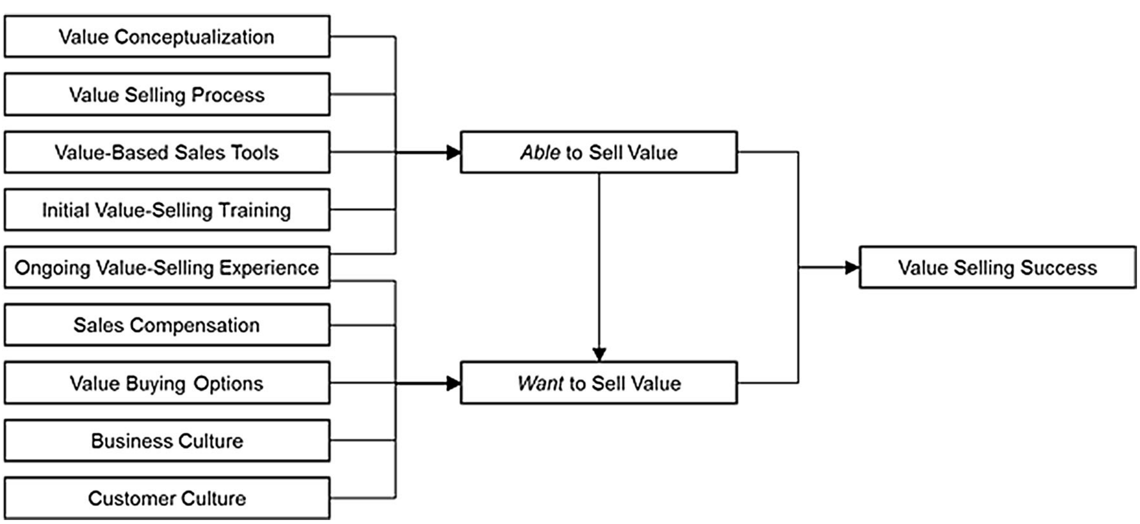

Fig. 1 What causes value selling success? Adapted from T.C. Snelgrove and J. Anderson, 'Muddling through on customer value in business markets?', in A. Hinterhuber and T.C. Snelgrove (eds), 2016, *Value First Then Price: Quantifying Value in Business-to-Business Markets from the Perspective of Both Buyers and Sellers,* Routledge, New York, Fig. 7.2, p. 77

all the other new great ideas pushed out from the head office in a sporadic way. I've heard salespeople say "this is just the flavor of the month… I just need to wait till they take a new focus… Why bother changing?"

So creating the ability to sell value is the foundation for realizing some of that value for your company. However, it can't end there.

The want to sell and buy value—the missing piece

What James Anderson and I found to be even more important in realizing the value than the initial tools, support, and training is an ongoing culture or change-management project approach that renders a program living and improving. Why is it that athletes who've been playing the same sport for decades continue to train fanatically but that salespeople don't? Is it possible to ever reach the point in sales where you can answer every customer concern? I don't think so. At regional meetings, discuss what worked, what didn't work, and why, and have the team share best and worst practices. Commit to reading some journals or books to keep yourself refreshed. One best-in-class company had each salesperson read one business book per year and then present the key takeaways to the rest of the team. There's no better way to get the team participating in the ongoing evolution of the concept than to make them part of it. I've also seen that people prepare and internalize the material if they will be presenting the findings to peers versus waiting for the head office to tell them what value to sell, and how.

Next, are you rewarding your sales team on selling and getting paid for value or on selling volume? If you have a process for cutting prices but you don't have a way to guarantee that you'll deliver value to your customers, you may need to re-prioritize where you invest your time and create the right processes. Professional procurement has the right, if you say that you're better than the rest, to say that they're willing to pay you once you've delivered that value. You need to agree beforehand on what is of value and how you will measure it; but if you're unable to drive value and profit for your customers, perhaps you should have to write a penalty check to them. At the same time, if you exceed the value number you are tasked with, you should be rewarded. In too many companies, I see the salesperson that convinces management to cut a price getting some of the largest annual bonuses; if you reward this behavior, sales will find a way to meet such a target.

Business culture is what reinforces your ideals to your team. Are the people being promoted the best value sellers? Do you have an annual award for the team or person that obtained the biggest value order? At my old company, SKF, our CEO would talk about creating, documenting, and delivering value to our customers all the time. For example, it was part of our annual report; in one memorable presentation, he showed how we'd saved industry more money than the average price increase we had put through the year before—showing that the more customers worked with us, the more profitable they would be. I attended numerous investor days to explain our program and results. It was what we were all about; it was our culture; it was why we deserved to be paid more.

Finally, have you invested in helping your customers change the way they view what you could do for them? Do customers see you as a commodity supplier to be leveraged and swapped out at will? Or do they see you as a supplier that can help them reach their business goals of differentiating their offering, helping them be more efficient and profitable? The time to reframe how customers think of your offerings is not in the middle of contract negotiations, and it won't come because of one sales call. You as a company need to constantly be in the marketplace saying "we do things differently and better and we can help you achieve your goals."

I can give an example here of a company and offering that was clearly focused and can deliver on the *ability to sell value* aspect. I have just joined ABB, a global industrial company focused on making industry more profitable through the better use of power and productivity. One of my tasks is developing different pay-for-performance models for an innovative offering called Collaborative Operations. ABB will help companies take the next step in their digitization journey, specifically helping industrial companies turn the millions of data points collected into useful and valuable information. Now the customer, and their head office, can look at possible problems proactively on demand and in real time to solve potential costly problems together and bring in the subject matter experts from ABB quickly and efficiently. ABB will help companies be more profitable and document that value, and they're willing to be paid based on the customer realizing that value.

What does value selling success look like?

How do you know if you've succeeded being a leader in the value space? I think of it more as a journey than a destination, as the focus needed will never end. You will always need to focus on it, lest your competitors catch you. However, one of the most obvious things is to look at your financials. Did your top line grow, exceeding the industry averages while increasing your margins? Do you have a process for entering into agreements based on value whereby you're rewarded for delivery but at risk if you don't hit a predetermined target? Are your new product introductions doing better at selling the amount and at the price point that was planned? Besides financial metrics, can you point to a person and team who are driving your value strategy? You will know it, because you can feel the buzz in your company. The language of market communication changes from technical lists of features to financial value quantification. Sales is discussing what the value agreement should look like, not what the discount structure should be. You are winning more customer awards because they see the value you can deliver. Finally, the sales team is pushing back, asking for more proof of value, training, marketing communications around why your company is better. When sales starts asking for support versus having programs forced on them, you'll know that you're on the right path.

When sales has all these things supporting and driving their behavior, then realizing the benefits of value pricing will follow. A 2011 study by the Monitor Group, now part of Deloitte, found that companies that priced for value and did it well—including communicating and demonstrating that value—were 36% more profitable than companies within the same industry that took a "let's make it up in volume" approach. It's not easy, and no silver bullet exists; however, the benefits for you and your customers are huge if you focus on quantifying value first, then price, and work side by side with customers in a collaborative way to drive sustained profit by driving the right costs out and increasing value. As Harvard professor Shoshana Zuboff has said, since her publication of *In the Age of the Smart Machine: The Future of Work and Power* (1988), "everything that can be measured will be measured" and "everything that can be monitored will be monitored." We must perform these activities to drive measurable bottom-line profit, and it is our jobs as suppliers to demonstrate and document that value so that customers are willing and able to pay for it.

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