

Customer Value, Inc.
Competitive Marketing Strategy

Value-Based Marketing & Pricing

Bradley T. Gale and Donald J. Swire
(November 2006)

Customer Value, Inc. 217 Lewis Wharf, Boston, MA 02110, USA (617) 227-8191
Web site: cval.com email: info@cval.com

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Today, many companies are shifting from cost-based pricing to customer-perceived value analysis and value-based pricing. The benefits of this shift include developing a better understanding of:

- What factors differentiate your product from the competition
- How much those differences are really worth to the customer
- How much of a price premium (if any) you should be able sustain over the competitors
- What improvements to your product would add the most value from the customers' perspective
- How you should position and promote your product to stress your comparative advantages

Value-Based Marketing and Pricing describes the tools that Customer Value, Inc. uses to help companies achieve a comprehensive, consistent approach for appraising their customer-perceived value versus rival brands and executing value-based pricing.

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1. **Approaches to Customer Value Measurement** -- provides an overview of some popular approaches to the problem of valuation and shows how they can be extended and combined
2. **Customer Value Accounting for Value-Based Pricing** -- *Combining Cost-In-Use Estimates and Attribute Performance Scores* -- presents a case example of how to combine cost-in-use analysis and attribute performance scores and set a fair price
3. **Building a Value-Based Marketing Strategy System** -- explains how to use the Marketing War Room™ software toolkit to create a physical war room setting for supporting deliberations regarding product-line and multi-product, division strategy.

Approaches to Customer Value Measurement

All customers want good products and no customers want to overpay. Regardless of the product category, it is the customers' perception of *value* that will determine which vendor gets their business. For this reason, it is important for companies who make and price products to understand how much their products are worth.

A product's worth depends on how it stacks up against competing products. If it is a better-than-average product, it is worth more than average. Such products could be sold for a premium price. On the other hand, customers will often tolerate reduced performance if they can get the product at an economy price. Customer value measurement and accounting is a structured approach for comparing a product or service against the competition to understand its comparative strengths and weaknesses, assess its worth, and provide a rational basis for setting its price.

Traditionally, the primary approaches for analyzing differences in the worth (or value) of competing products to potential buyers in a product-market category were:

- ❑ Importance-Performance Analysis
- ❑ Engineering Economics
- ❑ Conjoint (tradeoff) Analysis

Customer value accounting, developed at Customer Value, Inc., combines and extends aspects of these traditional approaches to provide a comprehensive system for measuring the differences in worth/value among competing products. Here we outline the key features of the component approaches. In Section 2, we provide a case illustration that combines a monetized importance-performance analysis with a cost-in-use, engineering economics analysis.

Importance-Performance Analysis

Importance-performance analysis is a technique frequently used in business on both the selling side and the buying side of a purchase. The technique uses a "scorecard" (CVI refers to this as a "market profile") for comparing different products. Listed across the top of this table are the different competing products in the category. The rows show different "attributes" (also called "key buying factors"), aspects of the product or service (e.g. "Power" or "Appearance") that are important to the customer. In this grid, each product is given a "score" showing that product's performance on each attribute. Because some attributes are more important than others to the customer, each attribute is also given an "importance weight", a measure of its relative importance. Hence the name: "Importance-Performance Analysis".

For marketing applications, the data supporting importance-performance analysis often comes from market research surveys. These studies provide customer-perceived performance scores for a predefined set of attributes for each product/brand competing in a market category. They also

provide data on the relative influence weights for each attribute. Such studies are similar to “customer-satisfaction” surveys in that they collect customers’ perceptions of performance, typically on, say, a 1-to-10 scale. However, to support customer-value accounting, surveys must sample the customers of all of the key vendors in the market category, not just the customers of a single vendor.

Traditional market perception studies provide insights into differences in the value delivered to customers by each brand. But, typically these studies do not provide estimates of the worth differences in financial, or monetary, terms. “Dollarizing” these data is one of the key extensions to the traditional analyses provided by CVI.

Monetized Importance-Performance Analysis

At CVI we use a hybrid approach to combine (a) monetary price data from competitive intelligence with (b) 1-to-10 performance data and data on importance weights from market perception studies. We call this hybrid approach a *monetized importance-performance analysis*. The currency can be \$ US, Euros, etc. A monetized importance-performance analysis provides estimates of the worth (or value) of the differences in performance scores among competing products, by attribute. Section 2 provides an example of how such analyses work. An interesting feature of this approach is that it enables us to monetize the worth differences associated with performance differences on not only the functional dimensions of customer value analysis, like product attributes and service attributes, but also the dimensions that yield differences in psychological benefits, like relationship attributes and brand affinity attributes.¹

Engineering Economics

Some products are more expensive than others to purchase. However, costs don’t stop with the purchase; some products may be more expensive to own or operate than others. Engineering economics focuses on quantifying the costs of owning and using one product versus other products. Other terms used for this kind of analysis are “value engineering”, “cost-in-use analysis”, and “economic value analysis.”

People using an engineering economics approach typically focus on quantifying those costs that might be affected by choosing one product over another. The approach is useful when studying operations or logistics costs. The approach is more difficult to apply when trying to quantify the worth of performance attributes not usually discussed in purely monetary terms (for example, safety in use or aesthetics). Economic value analysis is useful when assessing a new technology versus an established technology, especially when the focus is on doing the job cheaper rather than better.

Using new software tools (see below), practitioners can now produce a hybrid analysis that combines (a) cost-in-use data from an engineering economics study with (b) the purchase price data and a monetized importance-performance analysis. The hybrid analysis covers the cost

savings, the worth of functional benefits, and the worth of psychological benefits of each product versus any other product in the market category.

Conjoint (tradeoff) Analysis

Conjoint analysis is a form of market research typically applied to the design of new products. The focus is on understanding how much value possible features or performance improvements might add to the worth of the product. Practitioners use conjoint analysis to select which features to include in the product and to choose enhanced performance levels that seem to add the most value relative to the cost of improving performance.

By itself, conjoint analysis does not assess the performance differences and associated worth differences of products actually competing in a market category. The choices offered to respondents in a conjoint survey are typically a hypothetical construct of what various offers could be.

On rare occasions, a company may carry out both a market perception study and a tightly coupled conjoint study. In such cases, if a monetary selling price variable is included in the conjoint study, the conjoint data can be used to estimate the increased price that people are typically willing to pay for better composite overall performance. This information can be used to calibrate the trade off of higher prices paid for better performance that we use in a monetized importance-performance analysis based on market perception data.

Customer Value Accounting integrates the pieces

As noted above, customer value accounting is a comprehensive system of analysis that integrates whatever data is available from

- ❑ Importance-performance analysis based on market perception studies
- ❑ Price data from competitive intelligence
- ❑ Engineering Economics studies
- ❑ Conjoint Analyses that are tightly couple to market perception studies

In the next section, we show an example of customer-value accounting in action.

Section 2

Customer Value Accounting for Value-Based Pricing

Combining Cost-In-Use Estimates and Attribute Performance Scores

As we have seen, two widely used approaches to measuring the differences in worth among competing products are engineering economics (cost-in-use analysis) and importance-performance analysis. *Customer value accounting*, developed at Customer Value, Inc., combines and extends aspects of these traditional approaches to provide a comprehensive system for measuring the differences in worth/value among competing products. In this section we use customer value accounting to illustrate how to integrate data on cost-in-use with data on importance, performance, and equipment price for room air cleaning equipment.

Comparing Products In Terms of Cost-In-Use

Let's start with the analysis of cost-in-use differences. To illustrate the process, we use an evaluation of room air cleaners published by *Consumer Reports*. The article provided a cost-in-use analysis for energy and filter costs for each of the sixteen air cleaner models evaluated. *Consumer Reports* measured the number of kilowatts of electricity used by each model, estimated annual kilowatt-hour consumption, and monetized the differences in energy consumption using the average cost per kilowatt-hour in the US. Filter costs were calculated in a similar fashion – *Consumer Reports* engineers calculated the estimated number of filters used by a model in a year times the cost per filter. Knowing the cost per kilowatt-hour and cost for each vendor's filters made it easy to convert energy and filter usage into annual energy and filter costs for each of the sixteen room air cleaner models evaluated.

Differing costs in using the product make some air cleaner models more valuable than others. If energy usage is the sole difference between two air cleaners, the model that uses less energy will be worth more to consumers. Cost-in-use analysis helps to quantify how much more. For example, based on the sixteen models evaluated, the price of the average air cleaner is \$209. Relative to the average air cleaner, the best performing Frederick model saves \$3 in energy and \$71 in filter usage over a two-year period. Based on these cost-in-use differences, the Frederick model is worth \$283 -- \$74 more than the average model.

Comparing Products on the Basis of Performance Differences

The different brands of air cleaners differ in terms of the cost of owning and operating. That fact makes certain brands worth more than others. However, there are typically other differences that customers should consider when making a purchase. Generally we refer to these as performance differences. Quantifying the worth differences associated with different levels of performance on benefit attributes, like *removes dust* and *removes smoke* in the air cleaner case, is much more difficult. In the following sections we will outline *customer value accounting*, a technique for

inferring the differences in incremental value associated with a product's performance differences on benefit attributes relative to competing products.

It is usually difficult to calculate directly the monetary value of all performance differences among products. However, using the right tools, you can infer the worth of your comparative advantages and disadvantages. Customer value accounting consists of three basic steps. First we have to define what we mean by overall performance. Then we measure the performance of our products and the competing products. Finally, we compare the overall performance of the products in the market with the prices they command. This gives us a sense of the price premiums that are justified by superior performance.

How should overall product performance be measured? The standard approach, used by market research firms, *Consumer Reports Magazine*, and most marketing departments, is to break down performance into a list of what are commonly referred to as "key buying factors." These are the product and service attributes that customers look at in determining which brand to purchase. Once these factors are identified, each vendor's products can be given a "score" reflecting performance on each attribute. These scores are the basis for assessing overall performance. Overall performance is thus a composite, weighted average, of the performance scores on the individual key buying factors.

It is important to note that the attribute list should include all of the key factors that are important to the customer. Generally, these will include product features, quality, and service. The attribute list may also include aspects of the relationships that exist between buyer and seller, and, occasionally, factors that reflect customers' affinity for certain brands apart from the brands' product and service characteristics.

The customer value accounting process starts with a simple table that shows the different performance levels of competing products. Here is the abbreviated market profile for room air cleaners. It shows the performance scores of six of the sixteen room air cleaner models on four performance attributes on a 1 to 10 point scale. The complete market profile spreadsheet would show scores for the other ten brands where the white band is located in the middle of this exhibit.

In addition to estimating the cost-in-use data for energy and filter usage described above, *Consumer Reports* evaluators measured how well each room air cleaner removed dust and smoke. These are efficacy attributes. The evaluation also covered noise (a side effect) and ease of use. To set the stage for calculating a weighted overall performance level, we have transformed the underlying performance metrics, like particles of dust per measure of volume or decibels of noise, onto a comparable, 1 to 10, scale.

In addition to performance scores, the market profile shows the relative weight or influence of each benefit attribute. We use these weights to reflect the leverage that each attribute has in the vendor selection process. Weighted performance scores measure how models stack up on overall performance. This is the primary measure of performance that we use in evaluating the worth of a product.

Performance Profiles

Air Cleaners -- CR Feb. 02

Market Profile			Performance Scores							Attrib.	Value
Air Cleaners -- CR Feb. 02										Weigh	Weight
Dimension	Attributes		Friedrich	Whirlpool	Bionaire	Hol-625	HW-17000	Sharper Image	Average		
Benefits	Dust		9.0	8.0	7.0	3.0	3.0	2.0	8.8	40.0	
	Smoke		7.0	7.0	6.0	3.0	3.0	2.0	7.2	30.0	
	Noise		6.0	6.0	4.0	7.0	6.0	10.0	8.3	20.0	
	Ease of use		6.0	6.0	6.0	6.0	8.0	6.0	6.7	10.0	
<i>Weighted benefit scores</i>			<i>7.5</i>	<i>7.1</i>	<i>6.0</i>	<i>4.1</i>	<i>4.1</i>	<i>4.0</i>	<i>8.0</i>		
Costs	Price	Equipment Price	475	250	220	120	130	350	245	100.0	
	In-use	2 year Energy	110	126	124	48	106	8	83	100.0	
	In-use	2 year Filter	144	260	264	120	250	0	150	100.0	
<i>Weighted cost scores</i>			<i>729</i>	<i>636</i>	<i>608</i>	<i>288</i>	<i>486</i>	<i>358</i>	<i>478</i>		
<i>Slope of fair value line</i>											<i>115</i>

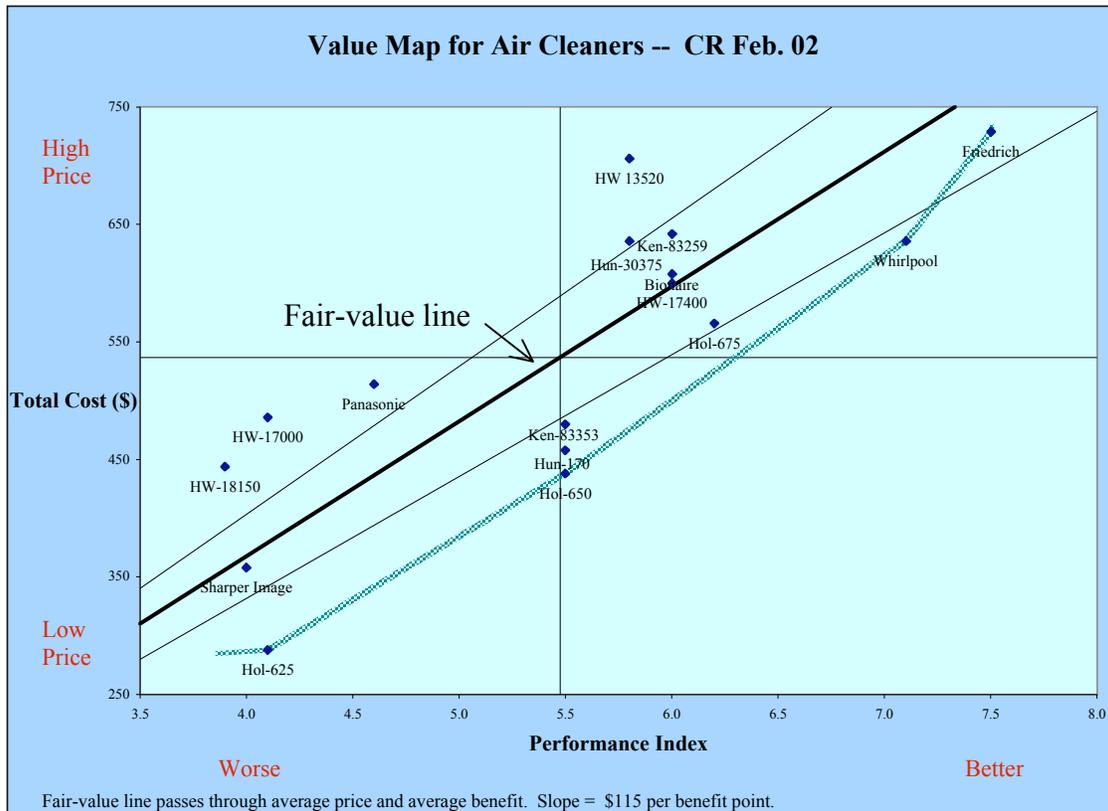
Next we describe how to monetize the added value created by brands that outperform competitors on key benefit attributes.

The Customer Value Map and Fair-Value Line

The key tool that product and pricing managers use to assess the worth of their products in the marketplace is the customer value map. Using customer value accounting, we can infer the worth differences associated with the efficacy, side effects, and ease-of-use attributes.

First, we produce a customer value map for the room air cleaner models. In this example the value map is a plot of total cost versus overall performance on the four benefit attributes. Total cost is the price of the air cleaner plus electricity and filter costs for the relevant time period. Second, we establish the tradeoff that customers are willing to make by paying more for better performing products. Generally, as in the room air cleaner market, the value map will show products to be differentiated from each other in both the vertical and the horizontal dimensions. Products plotted in the lower right (high performance, low price) are good deals for customers; products in the upper left (high price, low performance) are bad deals.

Looking at this value map, we find that in order to get better than average overall performance customers are incurring a higher than average total cost. In this category, the slope of the fair-value line is \$115 per benefit point on a scale of 1 to 10.²



Based on the slope of the fair-value line and the fraction of weight associated with each attribute, we calculate the worth differentials associated with performance differences on a 1 to 10 scale. These monetization coefficients, *worth per point* data, are shown in the *product appraisal* table below. Like the cost per kilowatt-hour information, the worth per point data enable you to estimate the worth differences associated with the performance differences on benefit attributes in monetary terms.

At this point we have assembled all of the pieces we need to do a product appraisal. We have the performance scores showing how our product stacks up against the competition on the key buying factors. We've used data on the relative importance of these factors to construct a weighted average overall performance index for our business and the other players. We've used the value map to calibrate the degree to which customers will pay a premium for better overall performance. This information all feeds into the appraisal process.

The appraisal process evaluates a product by comparing it against a reference product. Usually (but not always), we use the "average product" as the reference. We start with the average price of products in the market. Then, attribute-by attribute, we compare our product's benefit scores to the average scores. For each comparison, we estimate the differential worth of our product. These increments are then added onto the starting reference price to arrive at an appraisal.

In equation form, the appraisal logic can be expressed as

Justified (Fair) Price = Price of reference product
 + Value of your product advantages
 + Cost savings in using or owning your product

Product Appraisals: Combining Performance Appraisals and Cost-In-Use Estimates

We will now apply this logic to appraise the top-performing Friedrich air cleaner. We will use the average air cleaner as our reference product. The average model sells for \$209. The Friedrich model is worth \$233 more due to performance advantages and an additional \$74 more due to cost savings versus the average model. So its worth relative to other products in this market category is \$515. Accounting for both cost-in-use differences and performance differences, we find the Friedrich model is worth about \$300 more than average.

Product Appraisal: Friedrich room air cleaners -- CR data, February 2002)

Estimating the worth of the Friedrich product using Average as a reference

Average price (\$)

<i>Equipment Price</i>	<i>209</i>
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Worth of Friedrich Benefit Advantages

	Worth (\$) per point	Performance Scores		Worth (\$) of Differences
		Friedrich	Average	
Dust removal	46	9.0	5.3	169
Smoke removal	34	7.0	5.0	69
Quietness (transformed from noise)	23	6.0	6.0	0
Ease of use	11	6.0	6.5	-6
<i>Net worth of Friedrich benefit advantages</i>				<i>233</i>

Cost savings (\$) in using / owning Friedrich

2 year Energy	110	113	3
2 year Filter	144	215	71
<i>Net cost savings</i>			<i>74</i>

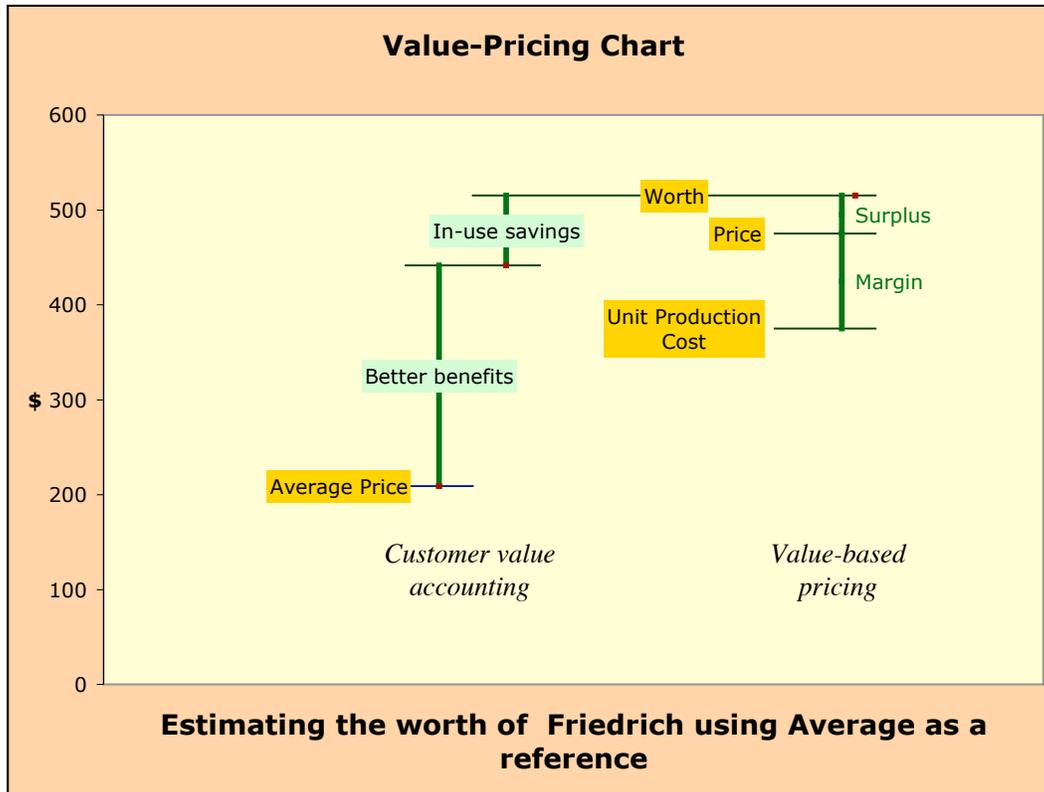
Friedrich Worth

<i>Implied worth</i>	<i>515</i>
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Note that the incremental worth of Friedrich related to superior performance on dust removal is \$169, which is much greater than the combined cost savings (\$74) related to lower energy and filter costs. So, it is important for pricing teams to go beyond cost-in-use differences to also account for worth differences associated with performance differences.

The Value-Pricing Chart

Pricing teams use the data in the product appraisal to produce a *value-pricing chart*. The value-pricing chart summarizes the worth differences between your product and a reference product and sets the stage for pricing your product based on its worth in the marketplace, as well as based on your costs. As noted earlier, the reference product is often the average or all products, but could be a key customer's current product, a product close to your product in overall performance, or any other product you are competing against. The left side of the value-pricing chart plots the results of customer value accounting. The right side of the chart focuses on value-based pricing.



We show the appraisal calculations numerically in the Product Appraisal table and graphically in the Value-Pricing Chart. Knowing the worth of your product and the cost of your product establishes a framework for pricing your product. Hopefully you find that the worth of your product is greater than its cost. If you price your product above what it is worth, you will have difficulty attracting customers. If you price your product below its cost, you lose money.

Setting your price determines the split of worth minus cost to the customer and to your business. We refer to worth minus price as customer surplus. If a product is worth more than you charge for it, customer surplus is positive. A Friedrich air cleaner is worth \$515; the price is only \$475. Therefore the customer surplus is \$40. We often measure customer surplus in percentage terms, relative to the worth of the product. When expressed as a percentage of its worth, Friedrich's customer surplus is 7.8 percent. Customer surplus is a measure of the goodness-of-the-deal that customers get from an offer.³ The percentage measure of customer surplus is comparable across

products that sell at different price levels. Price minus cost per unit is the profit margin for your business. For illustration purposes, we have assumed that Frederick's cost per room air cleaner is \$375. Using this hypothetical cost, the profit margin would be \$100.

Customer Value Accounting

Customer value accounting is closely related to, but more comprehensive than economic value analyses focused on cost savings to the customer. Pricing specialists using economic value modeling typically compare a new (subject) product versus an existing (reference) product. They note the tangible and perhaps the emotional differences in benefits between offers. They attempt to estimate the monetary differences in worth for the tangible attributes. They find it easy to monetize some of the tangible attributes that relate to costs, like energy usage. They can use miles per gallon data, a typical number of miles driven per year, and the cost per gallon to estimate differences in fuel costs. But they have no monetary conversion factor like \$3 per gallon of gas that they can use to monetize differences in ride comfort, seating comfort, acceleration, emergency handling, and braking. Yet these attributes are important whether one is analyzing minivans sold to consumers or heavy-duty trucks sold to industrial customers.

Note that modeling a market and each vendor versus every other vendor, including the category average, is a more comprehensive approach than just modeling two of the vendors in a category, a subject and a reference vendor. By modeling a market category, we can also produce a head to head value appraisal and a value-pricing chart for any subject vendor's offer versus any vendor in the category.

Pricing teams use these tools⁴ -- the customer value map, product appraisal, and value-pricing chart -- to help resolve classic pricing issues:

- ❑ Pricing a new, premium-performance product
- ❑ Pricing a new, low-cost, lesser performing product
- ❑ Repositioning a product that is currently positioned deep into the negative customer surplus zone, with a price that far exceeds its worth
- ❑ Identifying and re-pricing products that are offering a large customer surplus versus the average vendor – perhaps leaving money on the table

As illustrated in the marketing-war-room collage in Section 3, product positioning and pricing teams display the value-pricing chart, product value appraisal, and the customer value map side-by-side. This enables them to focus on their offer versus a key reference vendor while keeping a close watch on each of the other vendors' positions on the value map.

Building a Value-Based Marketing Strategy System

The products and services that attract customers and retain their loyalty are the ones that deliver better overall performance and/or lower prices than their competitors. They win by delivering better customer-perceived value.

To understand and manage the positioning of your products, your management team needs to know how customers perceive your product's performance on key benefit attributes and price relative to competing offerings. They need competitive positioning data. Yet, most companies manage their business units based on financial data, performance versus budget, and bonuses tied to "meeting the numbers" for revenue growth, profit, or shareholder value. Most companies do not have a competitive positioning information system and a set of marketing strategy tools to help manage their product lines with data that reveals their prices and performance versus competing products.

In this section we describe what a value-based marketing strategy system is. The ingredients include competitive positioning data covering the key product-market segments that you serve and a software toolkit for developing competitive marketing strategy.

Value-Based Marketing Strategy

The objective of value-based marketing strategy is to sell the right products to the right customer segments at the right price to maximize profits and growth. The underlying philosophy is that if we understand customer needs and satisfy them better than the competitors do, our business will be successful.

What a Value-Based Marketing Strategy System Should Do for You

For each market you serve, you should have a system that can help you:

- Understand your competitive strengths and weaknesses
- Identify opportunities to improve your product and service, and set priorities for improvement based on your customer needs
- Set prices that are consistent with your strengths and weaknesses
- Sharpen your marketing message to highlight your strengths and correct customers' misperceptions
- Test new product concepts

For companies that serve many markets (e.g. product lines of related products, different geographical markets for core products, different key account customers for a product), the system should help you

- Evaluate your product line coverage
- Avoid cannibalizing a high-margin product with a low-margin one
- Coordinate product and pricing across different geographical regions.
- Develop benchmarks for evaluating product success in one market or key account customer based on results in other markets or key accounts
- Maintain pricing consistency across different regions
- Identify cross-market management issues, systemic strengths or weaknesses, that merit centralized attention

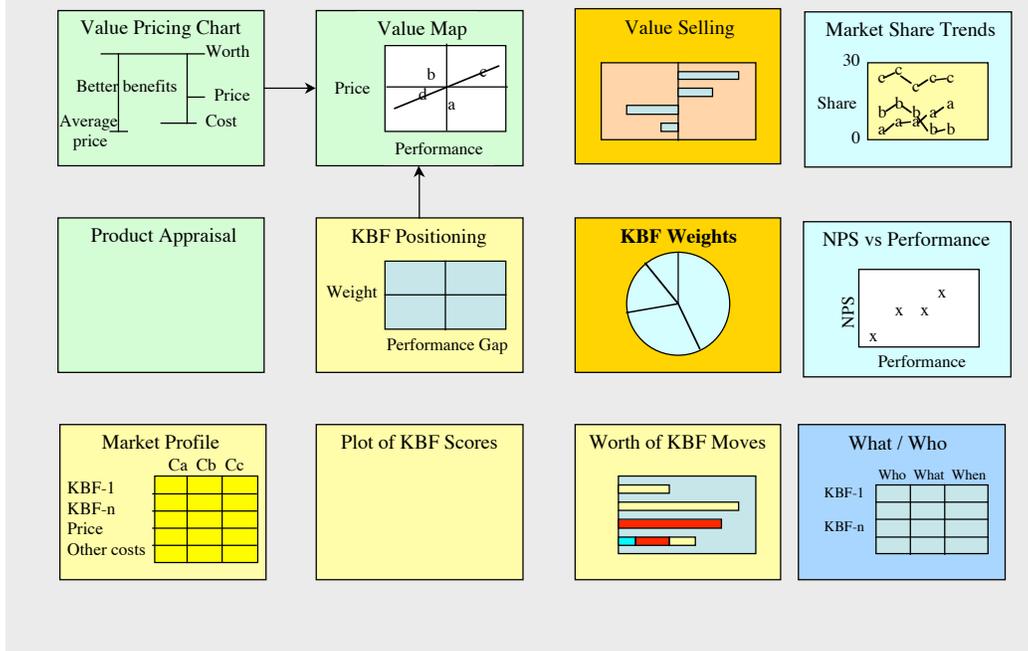
Analyzing a Product-Market Segment

A value-based marketing strategy system applies a core set of marketing strategy tools for customer value management of individual product-market segments. These tools include:

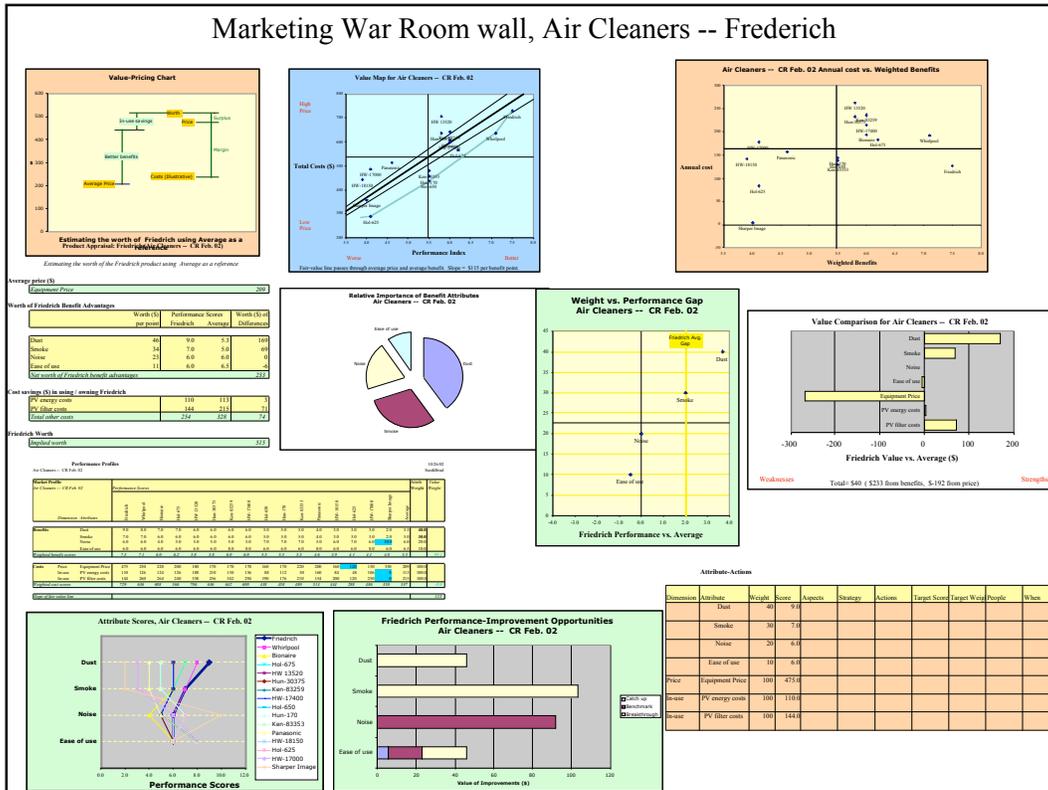
- Market Profile – a compact data set that compares your product to the competition from the customer perspective
- Value Map – a visual display that looks at competitors in a price-performance space, allowing you to see if you are competitively positioned
- Product Appraisal – a collection of tools for helping you set prices based on what your product is really worth
- Value-Pricing Chart – a graph that shows how much more, or less, your product is worth than a reference product and how setting your price splits the difference between your product’s worth and cost into profit margin for you and customer surplus for buyers
- Value-Selling Tools -- to help you identify how to extract the full value of your performance advantages
- Improvement Priorities Tools -- helping you to identify who must do what by when to improve your competitive position.

For periodic strategy review meetings, you post these tools on a conference room wall, transforming it into a Marketing War Room. A *who-does-what-by-when* exhibit summarizes your product line team’s competitive marketing strategy and tracks time lines for executing it. Pictured here is a mock up of a marketing war room for a key product, followed by a collage of marketing-war-room exhibits for the Friederich room air cleaner.

Mockup of a Marketing War Room -- a dozen tools for analyzing a single product



Marketing War Room wall, Air Cleaners -- Frederich



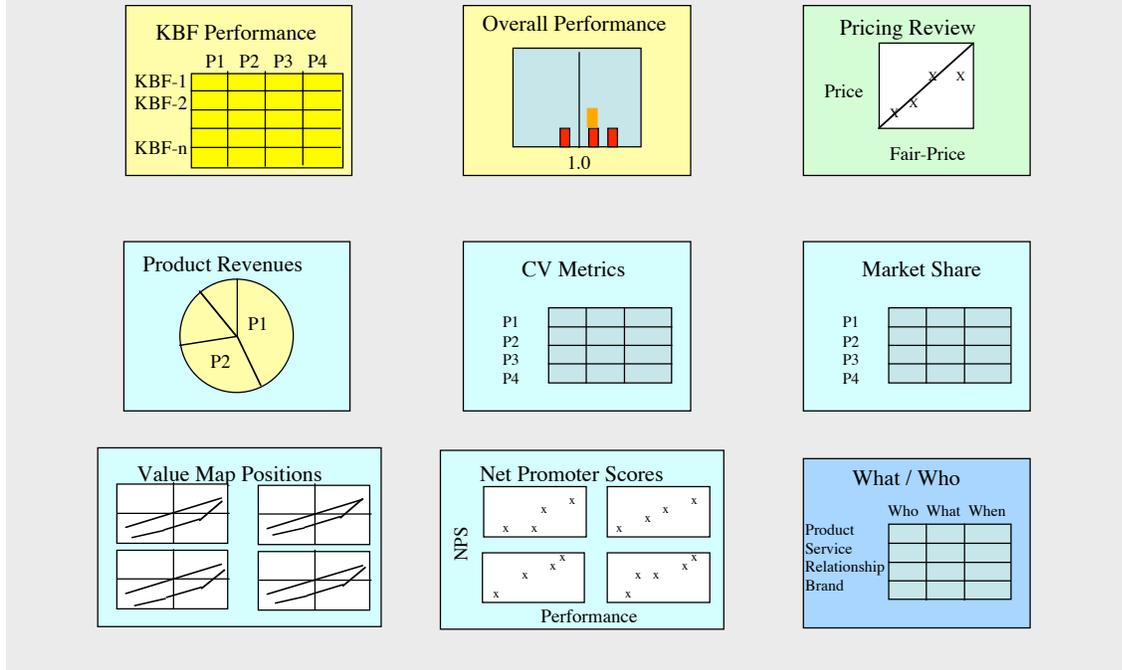
Reviewing a Portfolio of Related Product-Market Segments

For companies that serve many markets or several key account customers, a value-based marketing strategy system should also apply a core set of tools for managing a portfolio of related product-market segments or key accounts:

- **KBF Performance Review** – a table showing the portfolio’s performance relative to competitors, by key buying factor across the set of product-market segments. This table reveals systemic strengths and weaknesses in performance across the portfolio and paves the way for initiatives to improve your performance across several products and markets.
- **Review of Overall Performance** – a histogram of relative performance for the portfolio of product-market segments or key accounts. This histogram reveals how much the portfolio is outperforming or underperforming its competitors across the market categories served.
- **Pricing Review** – a plot of price versus fair-price for the products in your portfolio. This plot reveals inconsistencies in product line pricing and whether the products are systematically priced above or below their worth in the marketplace.
- **Revenue Pie Chart** – showing the relative size of the product lines or key accounts
- **Portfolio Scorecard of CV Metrics** – This table summarizes each product’s performance, price, and customer-perceived value relative to competitors. It also shows the customer surplus offered by each product in the portfolio.
- **Market Share Review** – This table summarizes the market rank, market-share level, and market-share trend of each product in the portfolio or share of customer by key account.
- **Collage of Value Maps** – identifying which product lines are on or near the best value frontier
- **Scatter plots of Net Promoter Scores versus Overall Performance scores** – showing how Net Promoter Scores are related to a product’s overall performance versus competitors. The key buying factor scores that make up overall performance provide a blueprint for outperforming competitors and boosting net promoter scores.

Here is a mock up of a marketing war room for a multi-product line general manager, his product leaders, and function heads with responsibility for customer service, relationship building, and brand affinity across the product portfolio.

Mockup of a Marketing War Room --
tools for analyzing a portfolio of 4 products in related segments



Gathering Competitive Positioning Data for Your Key Product Lines

To assess and manage a product’s competitive positioning in the marketplace your value-based marketing strategy system should

- Identify the key benefit attributes (buying factors) that customers value when selecting a product or choosing a brand
- Measure your performance and the performance of competing products as perceived by customers
- Estimate the relative importance or weight of each key buying factor
- Measure how customers perceive your price versus competition and measure actual monetary prices versus competition
- Track market-share trends

Some companies have the data necessary for a marketing strategy system; some companies don’t. Many companies have the data they need for a system but, because the data lies in bits and pieces in different functional silos, they are unable to put it all together. For example, relevant data on customer perceptions might lie within a market research function, relevant data on competitor prices might be in competitive intelligence or the sales-force feedback system, and data on market-share trends might lie in the marketing files. A good first step in building a strategy system is to take an inventory of the relevant data resources available in the company.

**Sources of data for --
Customer Value Analysis & Value-Based Pricing**

<u>Type of data</u>	<u>Sources</u>
<i>Performance scores</i>	-- Your mental models, refined by customers -- Engineering measures, transformed to 1-10 -- Market perception surveys
<i>Attribute importance</i>	-- Mental models, refined by key accounts -- Rank ordered, top attributes from surveys -- Influence weights derived from surveys
<i>Transaction prices</i>	-- Competitive intelligence
<i>Customer's other costs</i>	-- Cost-in-use analysis
<i>Market-share trends</i>	-- Industry analysts
<i>Your unit costs</i>	-- Your cost accounting & competitive intelligence

The best way to build toward a world-class system is to assemble the best data available and use it as the basis for your key decisions. At the same time, understand the gaps in your data and initiate programs to fill them in. The types of data you need and the typical sources for getting them are listed in the exhibit above.

Your competitive positioning and customer value accounting system won't be perfect; no accounting system ever is. But, it should be good enough to help you better understand the needs of customers in your targeted markets and how you are positioned relative to competing products. It should help your product line teams to better align their mental models with the perceptions of customers. And it should help you to position your products to outperform competing products.

Appendix

CVI Resources for Value-Based Marketing & Pricing

Customer Value Inc. can help you implement value-based marketing and pricing with

- Marketing War Room™ software
- Training
- Consulting

The Marketing War Room™ Software Toolkit

Customer Value, Inc.'s Marketing War Room™ is personal-computer software for helping a product-market team develop strategies to increase the value of their offering to their customers. The software allows you to do all of the appraisal and pricing steps discussed in this paper. The software makes it easy to generate the exhibits used in the marketing war room collage of exhibits for an individual product market segment and also provides the ingredients that you need for the exhibits summarizing a portfolio of related products.

Applications of the Marketing War Room include:

- Business managers defining their value proposition and setting priorities for product improvement
- Pricing specialists setting prices
- Key-account managers discussing needs with the customers and sharing insights within their company
- Marketing-communication strategists evaluating the attributes they want to stress.
- Market researchers analyzing and displaying the results of surveys

We offer division licenses and training programs to help ramp up your organization to meet these needs.

Footnotes

¹ Monetized importance-performance analysis focuses on quantifying the added value of outperforming competitors on key attributes that deliver functional and psychological benefits to customers. The techniques and tools for a monetized importance-performance analysis are illustrated in the twenty-page paper, “How Much Is Your Product Really Worth?” by Bradley T. Gale.

² For more information on the customer value map, fair-value line, and customer value accounting see, “How Much Is Your Product Really Worth? – optimize your pricing with Value Accounting and the Value Scorecard,” by Bradley T. Gale, (Customer Value, Inc., Boston, 2002).

³ Customer surplus is the appropriate measure for the goodness of the deal. Some pricing practitioners and purchasing teams use the performance-to-price *ratio* as a measure of the goodness of the deal, but this is a mistake. This bang-for-buck ratio is not a proper metric for setting prices based on the worth of your product.

⁴ At Customer Value, Inc. we have developed a software toolkit for customer value accounting and value-based pricing that we call the Marketing War Room™. For more information on the tools in the new value-pricing module, see the brochure for the Marketing War Room release 6 (Customer Value, Inc., Boston, September 2006) available on www.cval.com. Customer Value, Inc. developed the Marketing War Room software for its consulting practice and offers annual software leases to operating divisions of client companies. Seat holders typically include product managers, market managers, product-market-pricing practitioners, key-account managers, and competitive marketing strategy specialists. For information on how to get started with a comprehensive and repeatable, yet flexible and adaptable approach to customer value measurement, analysis, accounting, and management – review a copy of the flyer “Launching Customer Perceived Value Analysis and Value-Based Pricing” available from the authors.