

Linking Price and Value to Expand Share and Capture Profits

Understanding value in economic terms is a critical step for setting profitable prices and for equipping your sales team with the ammo needed to close the deal. This is especially true for differentiated offerings where the ability to link value with price can provide a sustainable competitive advantage and force competitors to play catch-up, as the author explains. Roberto Rivera has 12 years of pricing and marketing experience as both a consultant and practitioner. He is currently Director of Professional Services at LeveragePoint where helps companies understand and capture the value of their products and services, and can be reached at rrivera@leveragepoint.com.

Do your products and services deliver higher value than the competition? Make the most of your differentiation by linking price and value to set better prices

and solidify your competitive position. The clock is ticking and your competitors are catching up.

A powerful methodology that links price with value is Economic Value Estimation® (EVE®). **EVE® is a framework for collecting industry and customer insights to quantify the economic benefits that your solutions deliver relative to competitive alternatives.**

It is this economic understanding of value that establishes the foundation for setting price and determines what to communicate to customers.

**Example:
Supply Chain Solution**

IntegraSoft, a supply chain software company, has an innovative new technology for tracking, monitoring and optimizing transportation, inventory and facility operations. IntegraSoft's technology was designed to deliver the following customer benefits:

- Improve customer responsiveness
- Reduce supply chain complexity
- Improve asset utilization

- Increase adoption and compliance of supply chain policies
- Reduce labor cost from increased efficiency

A benchmark study conducted with a mid-size manufacturer prior to market launch allowed IntegraSoft to measure the improved efficiencies gained with their solution. Key data points were collected and then used to understand the economic benefits of their advanced technology.

Figure 1 is an example of the variables, logic and calculation used to quantify a 5% efficiency improvement in supply chain integration relative to other solutions in the market.

Over the course of the beta study, IntegraSoft uncovered that key features of their software generated almost \$130,000 worth of economic benefit over the competitive solution (see figure 2).

With this information in hand, the marketing team was tasked to determine how much of that value they could capture through price.

To set prices using the EVE® framework, the marketing team first established the cost of the next best competitive alternative available in the market.

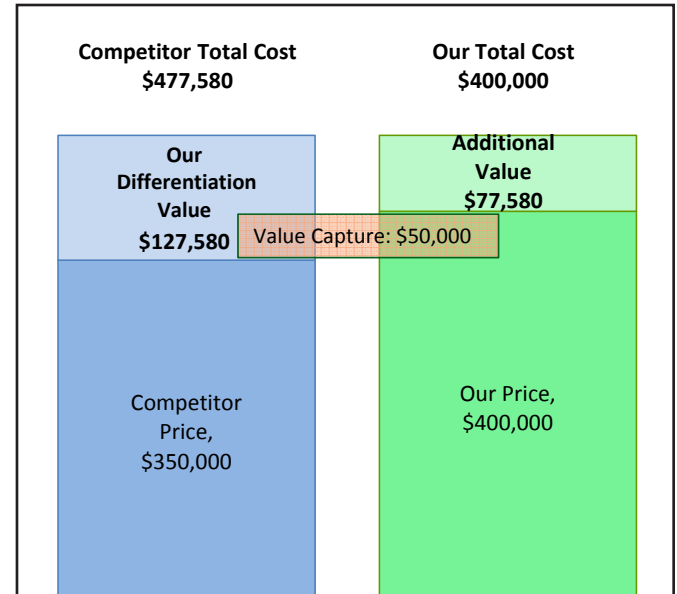
Using external sources they settled at a cost of \$350,000, which covered licensing and implementation fees charged by similar Supply Chain solutions in the mid-market

Figure 1

	Variable	Value
a	Total employees:	500
b	% of employees touching supply chain management:	20 %
c	Average % of time spent on supply chain management:	20 %
d	Average employee compensation:	\$40,000
e	% improvement in supply chain efficiency relative to competitor:	5 %
	Estimated Economic Value per year: a * b * c * d * e	\$40,000

Figure 2: Value generated by IntegraSoft's solution

Value Message	Value
Gain greater visibility into inventory levels thus enabling improved responsiveness to client needs	\$45,000
Streamline supply chain activities and increase efficiency by automating existing processes	\$40,000
Reduce the need for discounting by providing greater visibility and improved management of inventory levels	\$22,500
Reduce time to cash by minimizing errors and improving invoicing processes	\$10,080
Minimizes the need for expensive software licenses, upgrades and maintenance costs	\$6,000
Gain greater visibility and controls over inventory levels thus enabling better decision making and an overall reduction in inventory carrying costs	\$4,000



segment. Based on this information, they priced their solution at \$400,000 representing roughly a 15% premium over the competition.

Despite the higher price, the analysis showed that IntegraSoft delivered \$77,580 of additional value relative to competitive solutions. The marketing team and senior management felt strongly that they could not only capture a

premium but also be in a great position to gain share.

Linking price and value to the sales process

All sales reps were trained on the complete value proposition of the solution including value messages, specific data points, research, assumptions and calculations used to determine value.

As a result of this effort, the sales team felt confident with the pricing and sales goals set by senior management and vigorously attacked the market.

Overtime, the sales team was able to continually refine their understanding of value, engage in powerful dialog with customers, reduce discounting and stay a step ahead of competitors.