

10 Steps to Quantifying Value

The ability to measure and communicate the economic value that your products and services deliver to customers will help to neutralize your customer's obsession with price and give your sales team the badly needed ammo to succeed in future negotiations. But how do organizations quantify value? In this article, the author outlines a proven process that enables organizations to express, in economic terms, their superior customer value. Roberto Rivera has 12 years of pricing and marketing experience. He is currently Director of Professional Services at LeveragePoint and can be reached at rrivera@leveragepoint.com.

To price and sell on value you must first measure it. The ability to measure and communicate the economic value that your products and services deliver to customers will help to neutralize your customer's obsession with price and give your sales team the badly needed ammo to succeed in tough negotiations. But how do organizations quantify value? This is a basic question for marketers and sales professionals that are seeking to sell on value and rely less on price. Below is a step-by-step process that has been proven to help organizations express, in economic terms, how they are able to deliver superior customer value relative to the competition.

Step 1: Start by selecting the offering that you are interested in selling. The term "offering" refers to not only the core product or service, but also any associated services like delivery, training, financing, etc.

Step 2: Identify the market segment or customer you are selling to. It is likely that your value will differ based on the needs of different customers or market segments.

Step 3: Select your closest competitor along with the price they charge for their offering. Customers will likely evaluate your capabilities against other alternatives; therefore, the price of the competitive offering becomes the reference point for measuring value.

Step 4: Break out your offering into discrete features. We define features as the different attributes that make up your offering. Do not overlook possible sources of value from attributes such as training, customer support, packaging, delivery, financing, etc.

Step 5: Identify the customer benefits associated with your offering's features. We think of benefits as the actions or results customers get from using your offering. Identifying benefits requires a good understanding of how customers use your offering.

Step 6: Document the top unique benefits of your offering that result in economic gains for customers. We refer to quantifiable benefits as VALUE DRIVERS. To identify value drivers take each benefit and create a hypothesis on how the customer is able to reduce cost or increase revenues with your offering vs. your closest competitor.

Step 7: Identify the different variables and logic that would allow you to build out a formula to measure how your offering reduces costs or increases revenues for customers for each value driver identified in step 6. All variables, formulas, and calculations for each value driver will ultimately be presented and validated by customers. Selling value requires a collaborative relationship with customers since they play a key role in helping to refine and confirm your understanding of value.

Step 8: Populate the formulas and variables with data or assumptions. Data could come from existing competitive studies, sales feedback, customer inter-

views, industry publications, surveys, testimonials or third party market research. Expect your data to improve over time as customers provide feedback on the value you deliver.

Step 9: Create a value message for each value driver that engages customers by describing how your offering addresses their business needs. Also, create a set of questions to trigger a richer dialog around the data and assumptions used to estimate value. Asking the right questions demonstrates to customers that you understand their business needs and that your offering is aligned with their business needs and financial objectives.

Step 10: Gain a mutual understanding the value you deliver with your customers by organizing steps 1-9 into a format that encourages interaction and open communication.

Note that the entire process is designed to be iterative. Expect to revisit previous steps as you sharpen your thinking through interactions with colleagues and customers.

Summary: Steps 1 - 10

To summarize, start by selecting the offering you are selling and the market you are selling to. Next, identify your primary competitor and their pricing strategy. Then, break your offering up into discrete features, identify your offering's primary value proposition to your customers, and document this value in terms of economic benefit to your customers. Develop a formula for calculating your economic value and develop messaging to communicate this economic benefit to your customers. Encourage interaction with your customers and repeat steps 1-9 to adjust strategies as needed.

By continuously defining your value proposition based on customer feedback and re-communicating to them the value that they see, you create a cycle of value reinforcement with your target market.