



*This article provides insights on five key dimensions to consider in selecting areas to pilot or implement a value strategy within B2B enterprises. Peyton Marshall is CEO of LeveragePoint. Previously, he served as CFO and Acting CEO at Panacos Pharmaceuticals, Inc., CFO of EPIX Pharmaceuticals, Inc. and as CFO of The Medicines Company. Previously, he was an investment banker in London at Union Bank of Switzerland, and at Goldman Sachs where he was head of European product development. He has served on the faculty in the Economics Department at Vanderbilt University, and holds an AB in Economics from Davidson College MIT. The article was originally published on LeveragePoint's Value Strategies blog ([www.leveragepoint.com](http://www.leveragepoint.com)).*

## How B2B Enterprises Drive Profitability with Customer Value

**T**he best B2B enterprises **win** by selling differentiated products and offerings. They win **profitably** by realizing prices that reflect the customer value of their differentiation. They win profitably and **consistently** by understanding, quantifying and communicating the value of their products to their customers.

Embedding customer value in a B2B organization has tangible benefits quantified in a number of studies. The evidence indicates that implementing a value based-pricing strategy improves EBITDA by an average of 8%<sup>1</sup>. Estimates of the ROI of investing in value based strategies range from 130% to 900%<sup>2</sup>. Making an organization fluent in the language of customer value using a common framework can be transformative.

### How Customer Value Helps

Strategies based on customer economic value are deployed in a number of ways in B2B companies. They are used in product planning and decision-making for new product launches. They are used to improve the performance of existing products. Understanding quantified customer value helps B2B product teams design products that customers will value, make go/no go development decisions, set value based prices, devise approaches to market segmentation and design offering and bundling strategies.

Value-based strategies help marketing and sales teams execute by making marketing material more impactful and by providing pre-sales and sales teams with specific, tailored value propositions for individual customers. Communicating value and engaging customers in con-

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versations about their business generates trust and focuses attention on how a product is differentiated. Capturing value becomes a clear organizational objective. Closing more deals at reduced average discounts and increased average prices becomes a clear organizational result.

## Implementing Value Based Strategies Rapidly

**Value-based strategies can be implemented quickly, but fast results require a practical, flexible approach to roll-out.** Some organizations view every initiative, including value strategy initiatives, as massive, complex, global deployments.

This general approach is not surprising as it is often the way that new products are launched and that new IT systems are rolled out. Frequently new CEOs or new CMOs want to put their stamp on an organization.

This tendency toward grand design can work if staged and prioritized appropriately but it can also bog things down, resulting in plans for value deployment that try to boil the ocean. Examples of grand value strategy blueprints or directives typical of this approach include the following:

- a requirement to build out value propositions for all products before starting to deploy any of them in sales
- a plan to launch a value strategy to all customer facing personnel simultaneously
- a strategy that initiates value communication with complex value propositions designed to discuss all possible bundles of a business unit's product line
- a requirement that all possible customer segments and all possible competitors have a value proposition before starting to deploy any in sales

Many of these grand designs are destined for chaos or failure, especially if their imperatives are rigidly enforced. Building

value fluency and capabilities, by definition, requires an investment and is subject to uncertainty. Starting fast, where the ROI of this investment is likely to be high, is invariably a good idea.

## Find the Low Hanging Fruit for Value Strategy Success

Fortunately, implementing a value strategy doesn't require a massive data base integration or a simultaneous cross-functional, multi-divisional rollout. Successful deployments of customer value can start fast on a limited scale and achieve early success.

The learnings from that success can then drive effective expansion and scale-up.

**There are five key dimensions to consider in picking good places to pilot or implement a value strategy:**

### 1. Choose Differentiated Offerings.

Some products are more differentiated than others. Some offerings are better, not because the product itself is differentiated, but because the services and support that are provided as part of the offering are clearly differentiated. Quantifying customer economic value is only feasible when you have identified the features of your offering that give you a competitive edge. Quantified economic value is only persuasive when there is a clear competitive benefit of your offering to the customer. Starting a value strategy with clearly differentiated offerings helps organizations spend scarce time and bandwidth on efforts that will pay off.

### 2. Choose Strategically Important Offerings.

Some offerings are more important than others. Picking strategically important products for a value strategy maximizes ROI and helps focus organizational attention and resources. New products in preparation for launch are often central to a company's strategy for profitable growth and represent a good

starting point for focusing on customer value. It can be just as fruitful to focus on key existing products with significant growth potential from targeting new market opportunities. Sometimes key existing products can realize their growth potential with current target markets by turbocharging product messaging.

Finally, a more mature product facing a competitive threat and eroding margins is often fertile territory for a strong value proposition. Good sales people forced to play defense in a competitive situation

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are often motivated and knowledgeable enough to arrive at effective value propositions rapidly. Sometimes the best sales people have already built and learned how to deliver a customer value spreadsheet on their own. It can be surprising how often the hard work may already be done and all an organization needs to do is to scale that work effectively.

### 3. Choose a High ROI Stage in the Product Life Cycle.

Starting with value selling is not the only productive way to get under way. It often makes sense to start in product development because R & D is costly and understanding value helps improve customer-centricity early in the product design process. Starting with a product in preparation for launch is a choice frequently made, not just because the product is strategically important, but also because there are so many places in a launch where understanding customer value can have a large impact on its success or failure. At launch, designing alternative offerings is often an important part of the program. At launch, the pricing strategy needs to be well formulated. Quantified custom-

er value is often the best basis for new product price setting, given that historic transaction data are useless or misleading. Good segmentation strategy based on customer value can provide large pay-outs at launch. As a place to start deploying customer value, product launch has the added benefit that it is usually the point in a product's life cycle that commands the most marketing resources and where the sales training opportunities are greatest.

**4. In Value Selling, Keep Objectives and Language Simple.** Regardless of the product situation, it always makes sense to start value selling with clear, simple objectives. Trying to scale customer conversations about the economic value for multiple bundles of numerous products showing too many value drivers is bound to fail. It doesn't take an expert in cognitive psychology to realize that the most effective messages are clear, simple and highlight no more than 3 or 4 key points for sales to communicate on a single sales call.

The fundamental principles of good marketing should not be ignored just because math is part of the conversation. While a detailed understanding of the minutiae of a customer's business may provide a solid foundation for a good value conversation, the basic messages should be clean, simple and direct, suppressing any complexity. Value messages must be distilled into a few clear points to engage the customer in an effective business conversation.

**5. Start Value Selling with Teams Who Get It.** Not all sales people are created equal. To pilot and test value selling, choose reps in the right hand side of the bell shaped curve for rep performance. Some generalist sales personnel, e.g. key account managers, have the experience, motivation and skill set to elevate their dialog with customers. Having understood their customer's business all along, it is natural for them to supplement their customer conversations with quantified, bottom-line value. They already sell differentiation; tailored value

propositions, well presented, are an impactful extension of what they do. The best B2B account managers recognize the role of different customer stakeholders in complex purchasing decisions and economic value becomes a way to have a customer-focused conversation, build credibility and generate business sponsorship, countering the barriers and objections of Procurement.

Some customer-facing teams, like specialist or technical sales, have the aptitude and bandwidth to connect technical specifications to quantified value. These specialists are often best suited to have detailed diligence conversations where customers drill into technical detail and kick the tires on the value of your offering.

In sum, targeting fast success and high ROI is a good planning principle for embedding customer value successfully. In many cases, focusing on new products, on key, differentiated existing products or on large, long-cycle sale opportunities make sense. But every company and every situation is different. Value strategies are deployable in a way that is adaptable and can be responsive to these differences.

Many successful organizations deploy value using an "agile" method or approach. Agile deployment involves: (1) designing to limited objectives, (2) developing an initial version in sprints, (3) testing v1 quickly and (4) iterating rapidly to improved versions. Agile deployment of customer value can obtain early success by targeting low-hanging fruit and focusing resources and training on the best opportunities.

An agile approach has the benefit that successful tactics and positive results are contagious. A few war stories of good product launch decisions or of successful deal negotiations, properly broadcast, can build momentum and help make the language of value go viral. Agile style deployment also helps identify what works and what doesn't, continuously improving approaches to quantifying value,



**Start value selling with teams who get it. Not all sales people are created equal.**

making decisions, designing good value propositions and deploying them to engage customers effectively. As a result, demonstrated success unlocks the sustainability and growth of customer value as a central business driver.

## References

1. See John Hogan, "Building a World-Class Pricing Capability: Where Does Your Company Stack Up?" Monitor Group Perspectives, 2008.
2. See Stephan Liozu and Andreas Hinterhuber, eds., *The RoI of Pricing, Measuring the Impact and Making the Business Case* (Routledge, 2014), especially the chapter by Stephan Liozu, "RoI and the impact of pricing: the state of the profession." - See more at: <http://www.leveragepoint.com/blog/how-b2b-enterprises-drive-profitability-customer-value-where-start#sthash.BVMCNowt.dpuf>