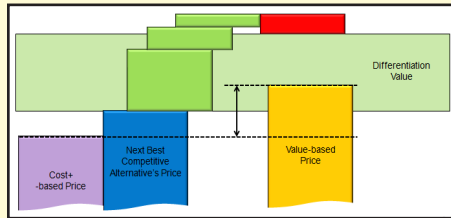


Implementing Value Pricing: A Case Study



In this article, the author shares his experience as a value pricing transformation leader and examines the on-going Value Pricing deployment at Schneider Electric IT Business Unit (“ITB”), one of the leading Business Units of a value-driven general movement which has been taking place across the organization (including four Business Units in total: Partner, Energy, Industry, and IT). In sharing his experience in this important transition, he offers solutions and tips to pricers seeking to launch a Value Pricing transition within their own organizations. Laurent Gambier is Pricing Director and Value Pricing Transformation Leader at Schneider Electric ITB (France). He can be reached at Laurent.Gambier@schneider-electric.com.

This article examines the ongoing value pricing deployment at Schneider Electric’s IT Business Unit (ITB). In analyzing this transformation, we’ll cover the key reasons why institutionalizing value pricing is often a long journey, examine some various types and interpretations of “value pricing” and relate them to some pre-development marketing tactics. This case study will explore why Schneider Electric needed an enterprise-wide tool for value pricing implementation as well as a specific organizational structure to help the transformation succeed. The article will explore why processes should support the change management ambition, and how this ambition is currently leveraged across Schneider Electric ITB. We’ll touch on the importance of sales processes and effectiveness, as the sales force is the primary point of contact for promoting value and for defending resulting prices with customers, and finally will examine value-pricing-driven business impacts and why trying to measure them all is still a challenge.

Embryonic experience, promising perspectives!

Let me first very briefly introduce the company before I examine the progress of our value management deployment journey and provide a few insights on the key steps of our venture.

Schneider Electric is a €24bn revenue global specialist and a leader in energy management that employs 150,000+ collaborators. The company provides products, solutions, systems and services for all actions of the energy supply chain to ensure that energy is safe, reliable, efficient, productive and green. ITB designs, produces and sells products, systems, solutions and services around protecting critical IT applications across multiple market segments. ITB’s portfolio includes offers such as 1-Phase and 3-Phase un-interruptible power systems, cooling systems, rack power distribution units, prefabricated datacenter modules, monitoring, maintenance services, etc.

Despite the fact that pricing maturities and processes might have been differing throughout the organization, the (value pricing) direction that the company is now taking is clearly aligned across Business Units.

Graduality and realism

First, let me please state the obvious: value pricing deployment is a **journey**. Below are the primary reasons why I perceive it as such, and at Schneider Electric in particular.

Why a journey?

First of all, because the **word** “value” is frequently **hackneyed** in the collective unconscious. Indeed, “value” is rarely referred to as “an economic impact for the customer.” Although some exceptions always contradict the norm, and to purposely be provocative, “value” frequently remains a relatively vague notion or some benefits either related to intangible / brand-image-related / non-economic / non-quantified considerations or related to technical features and aspects. Who has never read so-called “value propositions” without a single “\$value” mentioned in them? As a *LeveragePoint* pricing expert very rightly states “*Everybody talks value...but few actually walk the talk.*” In other words, the simple fact of having to educate about what “value” actually refers to takes energy and time.

Secondly, because value pricing is about (durable) change management. It is a change. It is also a change since most of ITB’s price setting has been cost-plus driven. (Again, this doesn’t prevent some very rare exceptions from existing.) Eventually, our pricing has been resulting from a combination of “cost+” and “competition-driven” approaches. So, putting customers (namely, customer’s P&L) at the center of our (originally relatively “inside-looking”) price setting is not necessarily intuitive.

Thirdly, as value pricing is about change management, it implies Top Management’s sponsorship. I should have written Top Management’s “continuous and visible” sponsorship. Fortunately, thanks to the combination of both my direct Manager’s (ITB Global Pricing Director, Marketing & Sales Process organization) and the ITB ExCom’s respective trusts (including ITB Marketing & Sales Process SVP), I managed to be actively supported. Still, like in many large companies and related numerous priorities, organizational changes cause Top Management’s sponsorship to be

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periodically worked out again and again. In that it contributes to making value pricing deployment a journey.

Last but not least, because I find “value pricing” to be a **self-reductive wording** which persistently “confines” the perception to “pricing” aspects, hiding / smothering / toning down a very vast “value supply chain” that starts with innovation/pre-development stages and ends with selling. Consequently, the transformation actually spans across multiple “functions”. Pricing based on differentiation-driven customer economic value is irrelevant:

- if a “meaningful differentiation” isn’t created,
- if value modeling / price setting / value communication process isn’t conducted,
- if value-based prices and value stories are not respectively defended and promoted to customers in a resonating manner.

Ignoring one of these steps would disrupt the whole value chain consistency: it is a journey since the adoption is to be driven throughout the organization while using “confining wording” that may tend to moderate implications, and consequently to moderate the potentials and related teams’ engagements.

Paving the way

Let me now briefly share about how ITB was able to get its value pricing transformation started. Actually, our value pricing transformation program wasn’t triggered “over-night”. It was the result of a way that started being paved a few years back.

Originally, ITB had introduced (re-introduced) the concept of “value” through what is called “value-price mappings”. Whereas TCO*-based pricing (Total Cost of Ownership) existed already on a few revolutionary product technologies, the notion of “enlarged value” (looking also at services expertise aspects, delivery performance aspects, commercial responsiveness aspects, etc.) wasn’t really factored in to our price setting process.

In this respect, value-price mappings helped put our existing products’ prices into perspective and caused some specific actions to be taken to improve pricing overall and, by doing so, to get closer to what is commonly named the “fair value line.”

But for those who have experienced value-price mappings (at least the mapping methodology that ITB used; there may be others), value is not really expressed in terms of “economic impact for the customer” (as opposed to what “value pricing” is primarily supposed to refer to).

In value-price mappings, “values” (including tangible and intangible items) are ranked by estimated level of importance and scored according to estimated level of performance. In other words, we don’t tackle the “economic value” as such. Mappings mirror scaled importances and performances estimations. But still, it was a fruitful opportunity to open up the horizon by putting prices into perspective and stepping away from the famous “*We are too expensive!*” mono-dimensional and usually undocumented widespread statement. For instance, value-price

mappings actually directly contributed to setting some of our new products’ prices in India.

This multi-year “side mapping experience” definitely contributed to heightening value awareness, paving the way for an actual customer-economic-\$value approach. Not to mention that value-price mapping philosophy is finally relatively similar to the “MoCA” (Matrix of Competitive Advantages) approach, positioning market players respectively to each other and helping a company better define its strategy and/or pre-select features/innovations during the new offers’ pre-development stages like already done in some of our Business Units.

A general movement supported by a common platform

Another factor contributed to kicking-off a real economic value initiative: namely, the general movement within Schneider Electric that value was in the process of being subject to.

In 2013, under the leadership of Schneider Electric Partner Business Unit, a corporate agreement was signed with a 3rd-party pricing partner. The agreement was about being provided coaching and access (by whatever relevant stakeholders: Offer Managers, Pricing Managers, Business Development Managers, etc.) to a cloud-based platform associating users to a structured, standardized and centralized value pricing process, including clear sequential value modeling, price setting and value communication steps.

Such a platform was needed to scale and speed up ITB’s value pricing transformation. It greatly facilitated the “iterativeness” of the overall process, on top of facilitating the standardization, storing, sharing, duplication, customization, layout and publishing of the information that has become “common language” across the various concerned functions as well as across our different Business Units.

Proof of concept

This transformation was validated by ITB ExCom in early 2014 as a result of a promising 6-month proof of concept pilot project conducted in the second half of 2013.

The scope of the pilot included different types of offers: a new product, an existing product and a new service offering. Each of them provided complementary approach angles: one was a real opportunity to set prices, another one was more about “rethinking” an existing commercial articulation, and another one more about building the value proposition.

Generally speaking, for a pilot project, selecting relevant offers (approached for providing with meaningful differentiation, relatively close to launch) in association with motivated team members is important to increase the chances of quick momentum and success.

Since then, a dedicated transformational role was created, in association with the nomination of a dedicated Project Manager to help ensure appropriate deployment discipline and publish periodic crucial advancement reports to the Management and to the primary stakeholders.

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I've been holding this global role for about a year now, driving gradual adoption across ITB's lines of business (products, solutions and services) conjointly with the Project Manager, the Management and with Regional pricing teams as precious local evangelizers and coaches operating where in the world Lines of Business and Business Development teams are stationed.

Intuitively, for those stakeholders (like Offer Managers) who have gotten educated, involved in tangible value pricing exercises and have become value pricing experts, we could expect some sort of "mutual aid" to be formed between champions and those still developing. My experience showed that this actually did start taking place, but not necessarily through "in-person / direct" interactions. Rather, it materialized through consulting champion's work saved in our cloud-based value pricing platform and through duplicating / extrapolating / adjusting / customizing from it. This seems to have been working well and in a sense the cloud solution has been serving one of its key roles!

Updating processes to help systemize and mirror the ambition

ITB's Offer Creation Process was updated around capturing value pricing as a "marketing stage gate." More precisely, the process now states that for every single new offer, value pricing relevance will be considered. Relevance criteria have mainly to do with meaningful differentiation intent, "meaningful" standing for the "actual differentiation that will have an economic impact for the customers, and whose impact can be communicated to, heard by and (partially) paid for by those customers. In this respect, it may be a challenge to "gauge" what differentiations (technical and non-technical) will actually resonate.

This is why it is crucial to continuously put ourselves into our customers' minds. A great technical breakthrough can be overconsumed by a poor delivery performance, and even more so when dealing with intermediaries (distributors, resellers, contractors, etc.). It is important to provide a consistent chain of values all along the way to the end-user.

Going forward, the objective is for ITB to tackle value modeling earlier on, like during the innovation / pre-development stages. It would thus provide a useful complementary angle to MoCAs, allowing for pre-quantifying customer economic impacts as an opportunity to help pre-select future offers' features according to the consideration of their estimated resonance.

Purposely, especially in current early stages of adoption, value pricing consideration isn't meant to be a requirement. It is now part of our process, but it is not a stage gate "constraint." However, our project management database has been updated in a way that allows for automating the tracking of the consideration of relevance of value pricing by the concerned offer management teams (boxes to check).

This automation facilitates monitoring and consequently it helps the pricing team intervene quickly if needed to kindly remind those in the organization that value pricing applicability should

be considered and decided in the early stages of the new offer creation process.

In parallel, we are working on ensuring that the value pricing outcome (in other words, the "(quantified) value story") is captured (fully/partially) in our Offer Introduction Process as well. The Offer Creation Process is where the "How to Sell Against" material is implemented as a tool for the Sales force to deal with competitors. Excluding this step would break the value chain.

The right offers for a quicker momentum

To maximize the chances of success of this deployment, new offers to get started with were selected according to various criteria such as differentiation, access to end-user (route to market), visibility (/contribution to revenue), launch date and the team's engagement level. After formal kick-off and general trainings to all Lines of Business and Business Development teams were conducted, individual periodic coaching / check-in sessions are organized to help ensure efficient education, proper direction, autonomy and durable adoption by Offer Managers (Lines of Business).

An ITB Steering Committee was nominated and periodic steering sessions are organized to help ensure continuous visibility and express the need for "vocal" sponsorship (not just a signature

on a project charter) as needed. Different "Management layers" are invited, conjointly together or separately, in order to facilitate the cascading of Top Management's sponsorship along the Management chain down to actual value pricing owners (Offer Managers). Steering sessions also give the opportunity for the Offer Manager in charge of the concerned value

pricing project to present to his/her Management. This directly contributes to associating team members even more, giving them exposure and helping ingrain the value mindset further. A Steering session would usually include a Lines of Business SVP as primary Top Management member. Since not all value pricing projects related to the concerned Line of Business could realistically be presented during the same session, we opted for a rotation of Offer Managers at present.

Steering Committees help keep the transformation top of mind. Should any reinforced support be needed, then Steering sessions are appropriate authorities to update, express eventual strengthened support needs, ensure alignment, and foster exchange about ways to drive this support (Top Management's written encouragements to teams, participation in some Lines of Business' periodic team calls, presentations in Leadership Forums, etc.).

Also, sharing sessions across Schneider Electric have started taking place. They are orchestrated by Schneider Electric Global Marketing (Pricing VP). They allow for an open exchange on opportunities, challenges and lessons learned, as well as for creating that sense of "common direction" that Schneider Electric as a Group wants to continue taking.

It is important to provide a consistent chain of values all along the way to the end-user.

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Adoption has been growing and teams are starting to see a real potential, for themselves and for the company, to take this value pricing approach further. Value modeling, as first step, and as the essence of the value pricing process I think, seems to really have either revealed or dug out or confirmed customer-centricity consciousness and how it could serve win-win interests.

Sales force education: the next (big) step

The sales force obviously has to be associated with this value transformation. The sales force is the primary customer's point of contact. As such, they do need to be educated on how the company's (value-based) prices are set. But as you may imagine, the undertaking is vast.

From the very start, we were very conscious of this vastness and of the fact that our resources were limited despite the fact that we were conscious of being fortunate enough to have some dedicated ones. This is why we started conducting this transformation in a realistic and gradual manner. Getting durable adoption from Offer Managers and Business Development teams will be a first achievement in itself. At the same time, it is important, I believe, to rapidly engage an evangelizing effort to the Sales population to ensure unilateral and consistent institutionalization.

Some impacts already measured

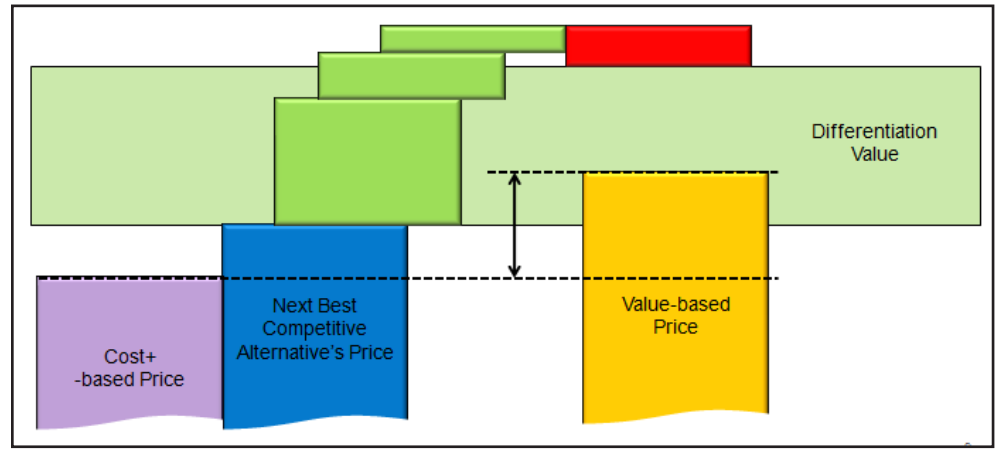
Last but not least, measuring the (full) impact of a value pricing approach remains a challenge and a non-exact science. There is some literature on the topic, but it is still fairly limited from what I am aware. For instance, some surveys state that value master companies can generate up to almost 25% incremental operating profit versus their related industry average.

In this respect, ITB cannot pretend mastering the impact measurement, but we have been aiming at continuously getting better at it.

For instance, we have been measuring the price premium opportunity we managed to capture as a result of going through a value modeling and pricing exercise (versus the price at which the same new offer would have been set, using cost+ for instance, without going through the exercise). Then we have been monitoring the related discount trends and actual booked volumes versus initial forecasts to make sure that value-based pricing did not disrupt what we could reasonably have considered as expected "normal" business for this related new offer.

So far, the booked volumes and discount reality have pretty much been matching the original forecasts, which seems to cause tangible additional profit to have been generated. But our experience is still very short and the education of the sales force

Figure 1



too embryonic to pretend to be able to seriously estimate what eventual impact on demand growth the (quantified) value selling approach may have, despite what we intuitively perceive it should definitely have.

Whereas value-driven business impact measurement is not intuitive, we deemed it crucial to work on those offers whose release-to-sales was not too far off. Some offers may indeed require several years to be developed and we couldn't afford to wait several years to start measuring something and building the momentum. Going forward, of course, the sooner in new offer creation process value modeling is tackled the more impactful value creation is expected to be.

Customer centricity: just do it!

I would like to conclude with the following statement by an ITB Offer Manager: "The project structure led us to insightful questions and investigations which were not otherwise obvious. This process aided proper weighting to hitherto vague notions of competitor strength and weakness, which have fed a new product language, packed with meaning."

How do I interpret it? Well, as the confirmation that "value pricing" goes far beyond "pricing only" despite the way it would tend to make us perceive it. It is a whole, starting with providing relevant innovations and relevant differentiations and ending with resonating story telling. Customers will select a vendor and pay according the story they will literally "hear." Therefore, it is up to us as a company to ask ourselves the right questions and to efficiently communicate the savings and solutions to our customers' problems that our competitors' solutions can't provide. In B2B especially, I believe that customers just like vendors aim at the same objective: not to pay for a (differentiated) feature, but to pay for a (differentiated) feature that will contribute to improving their own profitable growth, and brand recognition only can't suffice.

In that, the economic value approach can't harm; it can only give promising business perspectives since it's intrinsically customer-centric!