PROFESSIONAL PRICING SOCIETY

The PRICING ADVISOR

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In this article, the author explains how pricers' value-based strategies need to move downstream and include channel partners from the design phase to the execution programs. Otherwise, all of your efforts at implementing value-based pricing strategies can be defeated at the point of sale. Author Stephan Liozu, Ph.D., CPP, (www.stephanliozu.com) is the Founder of Value Innoruption Advisors and specializes in disruptive approaches in innovation and value management. He earned a PhD in Management from Case Western Reserve University and can be reached at sliozu@case.edu.

In This Issue:

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Value-Based Strategies: Getting Trade Channels on Board

Can you deploy value-based strategies without having the trade channels on board? The answer is simple: no you cannot. Obviously, you can debate for hours what "being on board" means. That is the subject of this short essay.

Figure 1 depicts the complexity of value and pricing management in the buyer-seller relationship with trade channels in the middle and the end-user at the end of the marketing process. Both buyers and sellers have specific goals, display specific behaviors, and manage their own optimization processes. **The end game of value-based strategies is to establish a win-win collaboration between buyers and sellers where both parties can capture part of the created value.** Pricers, marketers, and sellers on the selling side engage in activities to demonstrate to the buyer that there is worth in their offering and that the price premium is justified with high value delivery. But what happens when you go through trade channels that have their own processes, goals, and behaviors? How do you prevent retailers, distributors, and agents from becoming "value bottlenecks" because of their irrational focus on gross margins and because of the sheer number of brands they represent?

During my last PPS workshop, we discussed the following example. I recently purchased start-up fluid for my French 1979 Citroen antique that would not start. I walked in AutoZone and requested assistance finding the products. Two choices were available to me: Pennzoil for $3.70 a can and a branded generic for $2.70 for a similar can. Shocked by the price differential, I inquired with the sales associate which brand I should purchase. Without hesitation the response was: "Buy the generic brand! It is the same product inside and you save a dollar." I was shocked by the quickness of the response and the lack of willingness to try to sell me the higher quality and higher priced product.

Herein lies the problem: you can conduct all the value-based pricing programs you want, but you need to get your trade channels on board on the

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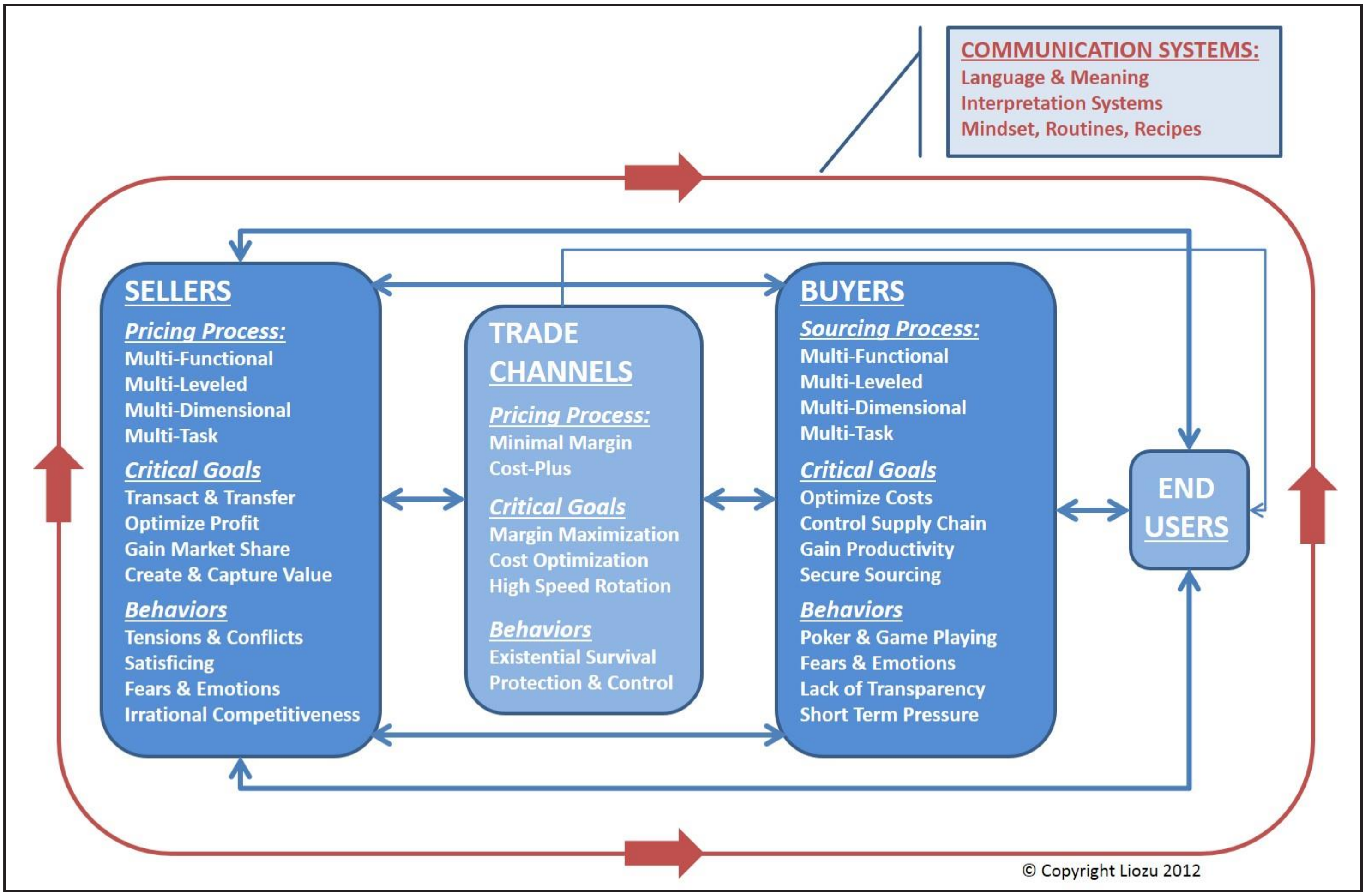
Figure 1



value journey. Easier said than done of course. Even if 100% of your activities go through distribution, you need to manage the value relationship with your channels with a vengeance. Either way, your value-based strategies need to move downstream and include your channel partners from the design phase to the execution programs.

Here are some of the programs I often recommend:

1. **Create differentiation for your channel partners:** Your innovation and marketing processes need to create excitement for your trade partners. Give them a reason to pay attention to your offerings among the hundreds of brands they might represent and carry. Being above the pack is a necessity to get the employee attention at retail locations and in their marketing materials. Differentiation should not come from price unless your positioning is low cost/low price. It should come from marketing programs such as training, support, customer services, logistics, etc.

2. **Conduct EVE® (Economic Value Estimation) modeling for trade channels:** The main focus of your EVE® and value models is on your end-user customers. You need to do the same exercises for your trade partners to demonstrate to them the value of your offerings. Your value models will look very different. They will include value drivers focused on supply chain, cash flow management, support activities, and possible gross margin differentials. This is part of your stakeholder mapping. Do not forget to do value models for trade channels.

3. **Engage with top leaders and owners:** Your leadership needs to engage your channel partners' leadership. They need to show the value scorecard and deliver the value of the strategic relationship. A customer value file is also a good tool to use to do so. High level discussions need to include strategic fit, cultural fit, and a collaborative desire to innovate, for example. As a manufacturer, you need to explain to your key trade partners what the direction of your business is. Show them how they fit in your long term plans. Show them the power of your organization in your eco-systems. As a former CEO, we often invited owners to "red carpet" HQ visits for strategic discussions, site tours, and long discussions

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on value, innovation, and strategy.

4. **Design dedicated training programs:** Value-based training programs have to be conducted with your trade channels' commercial and store staff members. In other words, you need to explain to them how to sell the value of your products and services. That includes explaining product or service advantage and differentiation as well as concepts of dollarization. Training programs related to value have to be blended with your product training. The key for success here is to conduct the training yourself and to avoid leaving this to your trade channel partners who may not have the time and expertise. It might be tough to get approval for it but your chances of success are greater if you do this yourself. You can also train all store employees on concepts of value by equipping them with the right tools. For example, the AutoZone employee could have given me one or two value drivers to allow me to make a better educated purchase for my startup fluid. In my experience, if channels are a critical part of your supply chain, your pricing people should spend more than 50% of their time with them in the field. I know that sounds like a lot but it is a necessity to bring them on board.

5. **Design special value incentives to channel staff:** Smart incentives might be offered for your trade channels' sales and in-store associates. Incentives can range from small gifts to small financial incentives. With the approval from your partners, you can design competition for the sale of innovative and high-priced products. You can also create annual awards and invite the winners for a trip of some sort. The key success factor here is that the incentive program has to be related to value and price, not volume and market share. That works best when your sales force is also incentivized on margin and price. There is a need for alignment there.

6. **Increase the focus on end users to create demand:** If you have a direct sales model, then chances are you bring business opportunities to your channels. You have a greater chance to control market pricing and to enforce pricing strategies. Some companies design MSRP pricing as guidelines for trade channels. Others monetize the value of all the opportunities they bring to commercial trade channels and include the dollarized value in a quarterly customer value file. Demand generation activities bring lots of value for your channels. Make sure you include these in your value models with a value driver focused on realized margin.

7. **Design loyalty clubs and programs:** I have found that preferred partner program can also be a good way to get channel attention. Depending on your positioning and your strength in the eco-system, you might be able to attract your loyal channel partners and your value buyers in well-designed loyalty programs. The key success with this point is to make sure you deliver tons of value to ensure these channel partners realize why they are paying a higher price for your offerings and why they are selecting you as a vendor. In my experience, you cannot be successful with these activities if you go half way. You have to be all-in and to make sure the execution is perfect. There is no room for average services or half-baked benefits. The perceived customer experience has to be superior. The level of required innovation is also critical to avoid the fatigue factor.

8. **POS communication and branding support:** As part of your value-based marketing programs and your potential loyalty programs, you might be able to design compelling and crisp value messages in your marketing communication campaigns. That includes banner, brochures, digital tools, and other materials that can convey value to your channels' customers. Bringing your trade channels on board with your value strategies means giving them marketing communications support. Can you hire a graphic designer that can do work for your channels? Make sure you dollarize all of this of course and include it in your value models and customer value files.

There are other ways to bring your channels on board. I have used all eight recommendations as an executive and a value practitioner. The bottom line is that it is a design and innovation challenge to bring channels on board. My team quickly realized we could not go to market with our value-based strategies without paying close attention to trade channels and engaging them with intention. This was a big part of our success in deploying value-based pricing.

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