

# VIEWPOINT

## Price Versus Value Management

Not Understanding the Difference Will Cost You

BY CHRIS TONGBERG

There are many abused and overused words and phrases in business language. The pricing strategy space isn't immune to this. Many executives, marketers, and pricing experts use the terms *price* and *value management* interchangeably, and then wonder why their products aren't selling like the pricing models say they should. What do these words really mean and why does it matter to your business?

Price management is narrowly focused – it's the point in the marketing process where the final price is determined and optimized. In simple terms, it means setting the price that a customer would be willing to pay. Some industries have traditionally done very well with price decisions, such as the record industry, where different album price points are driven by the level of artist popularity at that moment. But looking at the state of the record industry today, we see that this clearly wasn't enough.

Value management goes beyond analyzing price by looking at an organization's entire product and marketing process, of which determining the price point is the end result. Value management is understanding the market and aligning your assets and competitive advantages to extract the most value from customers. Value capture is not just getting a high price, but rather getting the **right price** and the **right product** for each customer or customer segment.

Let's go back to the record industry as an example. While the industry has done well at optimizing price for an album, they really missed the broader issue of value management: consumers don't want to buy the entire album and prefer more flexibility in their music selection. As a result, Sony, EMI, and others have seen album sales drop by double digits in the past few years and over 2700 record stores have closed since 2003. Meanwhile, Apple has seen the adoption of iTunes and the iPod skyrocket because of the company's ability to leverage technology and consumer knowledge to create the **right product at the right price at the right time**.

If you were to look at your product creation and marketing activities in a more critical light by simply asking "who are we selling this to?" or "why should they buy?", you will find your value management strategies will become more robust and defined. Executing a diagnostic to gauge performance across price and value management is critical to establish a baseline.

Don't end up like the record industry and find yourself playing catch-up and touting advantages that do not resonate with consumers or meet their needs.

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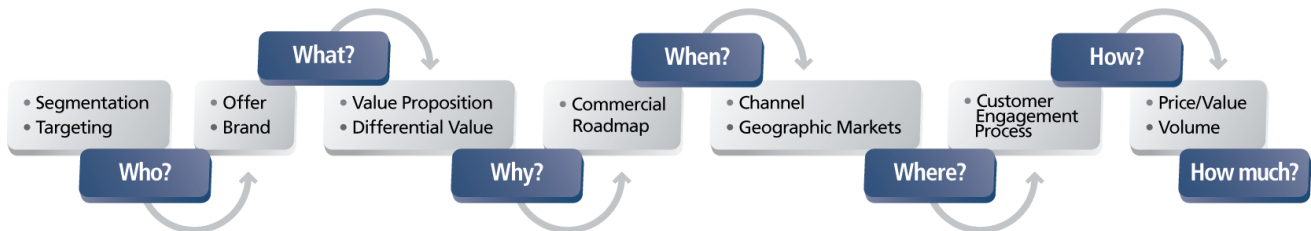


Kalypso has developed an approach which helps answer seven simple questions:

1. **Who** are the customers we have prioritized as our target customers or segments?
2. **What** is our competitive differentiation that is driving our product or service offering, and what is the relative positioning of our offering vs. alternatives in the market?
3. **Why** should customers purchase from us (is our value proposition compelling for the target customers or segment)?
4. **When** should we activate all marketing and launch activities for the product offering?
5. **Where** in the supply chain should we engage partners and channels, and do we have a solid understanding of the value delivered throughout the chain?
6. **How** do we market and sell to customers and track our progress against our objectives?
7. **How much** do we ask the customer to pay for our offering(s)?

## The Kalypso Commercialization Framework was used to structure the diagnostic...

...to ensure positioning of new innovations to discrete customer segments in a manner which results in the optimum price/benefit equation relative to competitive alternatives



It can be extremely difficult to change direction or make improvements in value management initiatives without first understanding where the real opportunities lie. Following this approach will help you clearly define the product value proposition and price appropriately for the target customer. Don't end up like the record industry and find yourself playing catch-up and touting advantages that do not resonate with consumers or meet their needs. Listen to the market and practice a disciplined value management approach to developing products that customers value so that you won't be left in the dark after the next product revolution.

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