

Tactical and Strategic Value Pricing

This is an article I wrote for The Sales Club, (see www.thesalesclub.co.uk) a newly formed club for Sales Directors of FTSE 1000 companies, hence the references to Sales Directors. However anyone involved in strategic pricing should find this article interesting.

In my role in developing pricing strategies I am a big fan of Value Pricing. I am sure you are too, but I find that companies rarely feel like they are achieving the Value Price that their product or service deserves. In this article I want to look again at Value Pricing and see the difference between tactical Value Pricing and strategic Value Pricing. Then I take you through the process of developing a strategic Value Pricing and look at the benefits.

However let me start by defining what I mean by Value Pricing. Value Pricing is fundamentally about the value that your product or service has to the specific customer. Some of the value will be tangible, e.g. how much money will it save me, with issues like Return-On-Investment (ROI) and risk mitigation being the key measures. However some of the value will be intangible, e.g. “How much better will it make me feel?”, with personal issues and emotions coming into play. Both are valid and add to the value of a product of service.

So with that as a quick background let us first look at tactical Value Pricing.

Tactical Value Pricing

Good salespeople use tactical Value Pricing instinctively: they try to understand the customer’s needs and focus on the attributes of their company’s offer that matches those needs. For non-contact sales, such as web sales or retail outlet sales, the information and packaging also try to do the same thing, i.e. highlight functions that should appeal to the target customers. I call this tactical Value Pricing and it is great at closing sales.

If you are selling very high value products face to face then this is possibly the best use of Value Pricing. Even so I would say that sales incentive schemes can heavily distort the strategic value proposition. Often your sales people can give away value, in this case more profit, in order to close a sale and move on.

Strategic Value Pricing

While strategic Value Pricing is harder to develop than tactical Value Pricing my experience is that the benefits are significant and wide ranging. As with any strategic issue this type of Value Pricing might be led by sales and marketing, but it is a board level job because it can affect so many aspects of the company’s offer, as we will see at the end.

Let me start by taking you through the steps I use when developing a strategic Value Pricing proposition. It might seem hard work, but my experience is that much of the information needed to execute this process is available inside companies and with the right group it can be mapped out in days not weeks. We start with...

1. Understanding Needs and Wants

Value Pricing is focused on the customer therefore we need to start with the customer’s Needs and Wants. I use the term ‘Needs and Wants’ to distinguish between two types of customer requirements.

- ‘Wants’ are the clearly stated, front-of-mind requirements that the customer is looking for. The Wants are the phrases customer will use in a search engine, or ask for over the counter.
- ‘Needs’ are the actual features that an offer must include to be useful to the customer, but rarely get mentioned. The Needs are those things they either take for granted or those requirements that customers have not properly identified, but are necessary.

The different between Needs and Wants can be amazingly high. In fact experiments have shown that a lot of Needs are almost impossible for customers to articulate as they are an unconscious part of their everyday life.

Tactics (*tak'tik*)
How to conduct an engagement.

Strategy (*strat'i-ji*)
How engagements are linked to achieve a certain goal.

When it comes to defining and communicating value the rules are:

1. Capture customer's attention by providing their Wants and...
2. Deliver the Needs for long-term loyalty and repeat business.

This is especially true for products or services that change the way we work or think. You may know that your customer really Needs your widget, but you need to focus on their wants at the early stage otherwise they will not even consider your offer. Later they will thank you for delivering their Needs too by saying things like "Your product is so easy to use" or "I don't know how I lived without your service". That's good Needs delivery.

2. Segmenting your customer base

Clearly Needs and Wants vary across your customer base and it is necessary to segment the customers. Segmentation is really important for companies in a highly competitive environment, and that is nearly everybody nowadays. Segmenting your market allows you to focus more clearly on each customer's specific needs and differentiate yourself from the competition. The segmentation, when developed, needs to be:

- Meaningful: understandable and useable;
- Addressable: it must be possible to reach them;
- Repeatable: not a short term trend or 'fad', but something lasting;
- Accurate: numerically accurate, valid and representative;
- Tangible: meaningful to the customer;
- Effective: must be useful when looking at the business objectives.

You are looking for common Needs/Wants, but also for the specific differences between each of the segments, i.e. what makes that segment different and how can we exploit it.

Turning this into a strategic Value Price

At the end of this strategic Value Pricing process you should have a clearer, segmented idea of the customer's Needs and Wants. Depending on the market type you can then develop a Return-On-Investment (ROI) model, or a risk-cost model, or a life esteem model or any other way of measuring the tangible and intangible benefits to the client. Clearly you must focus on the Wants, but Needs are close behind otherwise your offer will not be well accepted by your customers.

But that is not all...

The beauty of strategic Value Pricing is it forces the company to look outward and try to understand the customer better, which is a really positive process. As well as defining a pricing strategy that is reliable and defensible, the process provides a clearer understanding of the customer's Needs/Wants in each of your market segments. Here are some of the additional benefits that strategic Value Pricing can produce:

- Better sales value propositions and marketing messages;
- Different versions of your offer for different market segments;
- Suggest new markets or cross-selling opportunities;
- Providing input to future product or service design.

In conclusion I can say that every time I have used a strategic Value Pricing approach with clients the results are powerful. Hopefully this document has given you some fresh ideas that you can use to develop your own strategic Value Pricing approach.

Further suggested reading:

- *The Strategy and Tactics of Pricing* by Thomas Nagel and Reed Holden.
- *Pricing on Purpose: Creating and Capturing Value* by Ronald Baker.

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