# VALUE AND YOUR BUSINESS

## How you can measure value and what it means to your business

"Nowadays people know the price of everything and the value of nothing."
— *Oscar Wilde, "The Picture of Dorian Gray" (1891)*

Value is probably one of the most frequently used words in business. Yet it is extremely difficult to define, to measure its drivers and fully capture it with customers. Given that most companies create their own social construction of value, we propose to explore what it might mean and introduce some practical steps to increase your understanding of it.

We focus on the definition of value proposed in 1998 by James Anderson and James Narus. Value is the "monetary terms of the technical, economic, service, and social benefits a customer firm receives in exchange for the price it pays for a market offering, taking into consideration competing suppliers' offering and prices."

Why is it that few suppliers in business markets are able to define and measure value?

In a 2008 survey of business executives, 79 percent attributed this difficulty to a lack of capabilities and skills needed to assess value, apply the appropriate methods, and extract the exact value differential between two products.

Second to the value-assessment issue, communicating value to the market was associated by 65 percent of the executives with difficulty in elevating the value message above the advertising noise in the market.

Bottom line: There is a need for more research related not only to theory on value but also to marketing tools for understanding, measuring and delivering value in business markets.

Scholars agree that there are six characteristics of business value that make value difficult to measure: value is 1) a subjective concept, 2) a trade-off between benefits and sacrifices, 3) multidimensional, 4) defined relative to competitors, 5) segment-specific and 6) future-oriented.

At Ardex America, we have embraced the difficulty and complexity of measuring value and have put long-lasting value at the center of everything we do. We adopted Andreas Hinterhuber's approach that value in business markets is composed of six tangible and intangible benefit categories: product quality, delivery capabilities, services, ease of doing business, vendor characteristics, and self-enhancement (social status, prestige, aspirational benefits).

Our mission is to be able to measure the level of value we provide customers in each of these categories. To quantify economic value correctly, we have implemented a six-step approach called Economic Value Analysis:

Identify the cost of the competitive product and the process that customers view as the best alternative. Understand who you're competing against for your share of your customer's wallet and who might be able to substitute for your products or services in your customer's mind.

Segment the market. Understand why customers buy from you and what needs you satisfy; identify the true nature of these needs and the level of differentiation you enjoy in each segment.

Identify all factors that differentiate the product from the competitive product and process. Identify value drivers or unique selling propositions that really differentiate you. The rule of thumb is that you cannot have more than half dozen. These product or service drivers are your real USPs.

Determine the value to the customer of these differentiating factors. Quantify value drivers using assessment techniques such as engineering assessment, value-in-use analysis or focus groups.

This is where it gets complex! We have done well for product-related drivers and are now moving to less-tangible elements of our value proposition. Determining the value of services remains a challenge, however, and it is ongoing work.

Add the reference value and the differential economic value to determine total economic value. Define a price point by adding the reference value (price of next-best alternative) to the differential economic value you generated for your customers. At this stage, you might decide to share some of the value surplus with customers to entice them to keep doing business with you while paying a premium.

Use the value pool to estimate future sales at specific price points. Assess price elasticity by market segment based on various price points and relevant volume levels. For each segment, you can then establish your value positioning and your pricing strategy.

The process is not easy. It requires skills, capabilities and sweat equity. But you deserve to capture some or most of the value you create for your customers. Before you can capture it, however, you must understand it and measure it well.

Join us for more discussions on value and pricing management during a regional pricing workshop on Oct. 11, 2012, in downtown Pittsburgh. <<

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