Competitive Strategy *Customer Value Management*

Market Value Pricing

Customer Value, Inc.

Developing successful product strategies

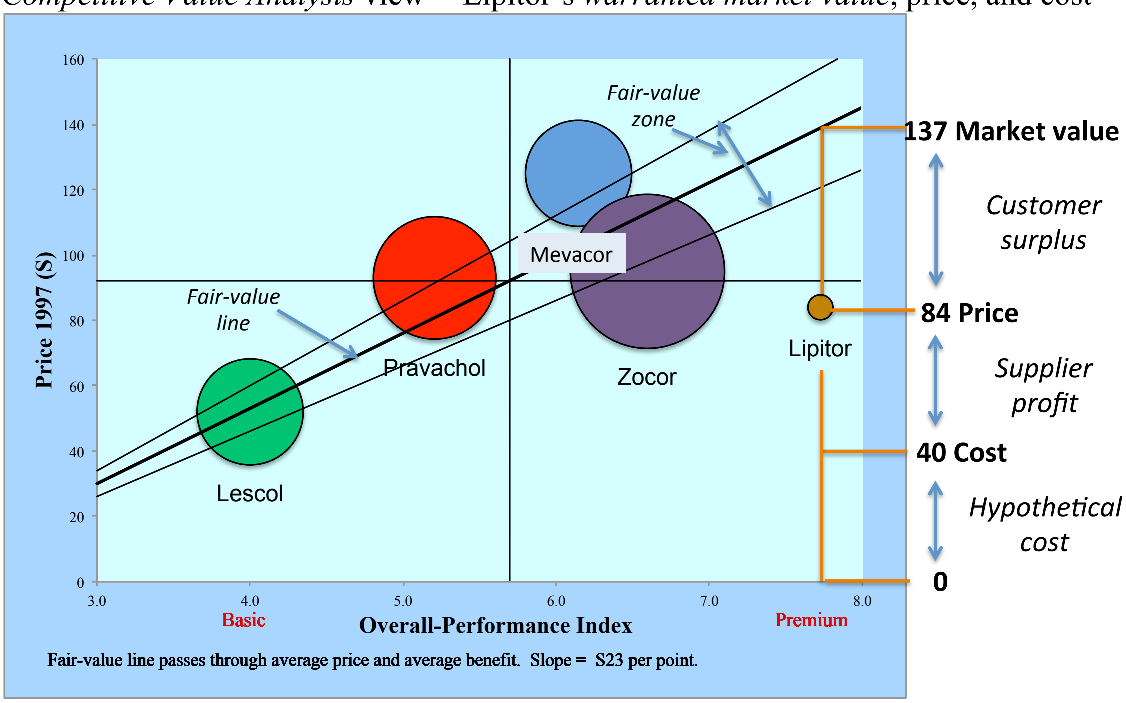
Delivering Value to Customers – at a Profit

September 2017, by Bradley Gale, Author, *Managing Customer Value*

Business leaders and teams can use *competitive value analysis* to develop strategies that win business and grow profits. A powerful application is to assess the value of a new product, like pharmaceutical blockbuster Lipitor, relative to the market prices and performance levels of products already on the market. Is the targeted price realistic? Is it too high, or too low? Will our product be dead on arrival? Will we be leaving money on the table?

The relevant tool is a *value map* showing each player's overall performance level and price. Here is what the competitive landscape looked like when Parke-Davis and Pfizer jointly launched Lipitor, the best selling pharmaceutical product ever. Lipitor was the *fifth* statin drug on the market for lowering bad cholesterol and raising good cholesterol levels.

Competitive Value Analysis view -- Lipitor's *warranted market value*, price, and cost

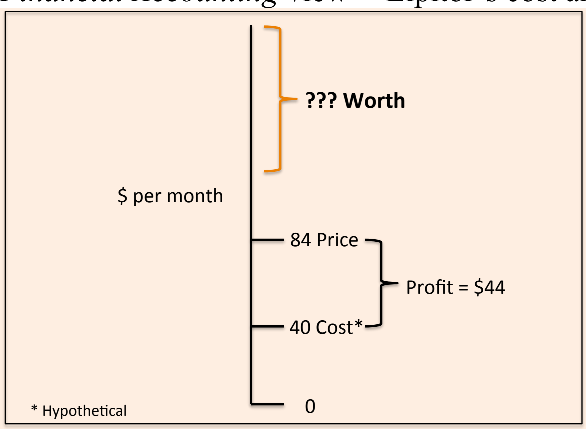


Overall performance is a composite of each drug's efficacy at lowering bad cholesterol, raising good cholesterol, and lowering triglycerides (another form of bad cholesterol).

Based on the value map and the fair-value line, Lipitor's *warranted market value* was $137 per month, relative to the field of incumbent statin drugs. Customers got good value – paying $84 per month for a drug worth $137. The customer surplus was $53. Lipitor made a profit of $44. Did they leave money on the table? *What is your take?*

Note that this enhanced value map incorporates reference lines, **market share data**, and the **unit cost** level of the new product. The enhanced value map integrates the competitive strategy and financial accounting views of a new product. As a contrast, here is what the financial data looks like on a stand-alone basis, without the competitive value analysis and map.

Financial Accounting view -- Lipitor's cost and price



Business teams can do a competitive value analysis to price their products based on these relevant competitive positioning and financial reference points:

1. The *estimated unit cost and targeted margin of your product*.
2. Your product's *overall performance versus the field* – Lipitor at 7.7, Zocor at 6.6, Mevacor 6.1, Pravachol 5.2, and Lescol 4.0.
3. The competitive landscape – *visual display of what people are paying for each additional point of performance ($23) and where the brands are in performance-for-price space.*

4. **Your product's *market value* versus the field. Lipitor was worth $137 per month.**
5. The targeted price for your product and where *your product would be positioned relative to incumbent brands and the fair value line and zone.*
6. Your product's *value versus the customer's best alternative*. Lipitor's vs. Zocor is $121. Zocor costs $95. Lipitor scores 1.12 points better, so it is worth $26 more (1.12 x $23).

Notice that the enhanced value map for Lipitor has integrated the *financial accounting* and *competitive value analysis* views of pricing. Also note item 6 in the list above. The concept of the *market value of your product versus the customer's best alternative* is integrated into the competitive value analysis framework, which also includes *all the relevant players*.

If you have questions or would like to see a value map snapshot of the statin drug market two years after Lipitor's launch, with nested bubbles showing Lipitor's *market-share gain*, and the *incumbent brands' losses*, email: bgale@cval.com.