

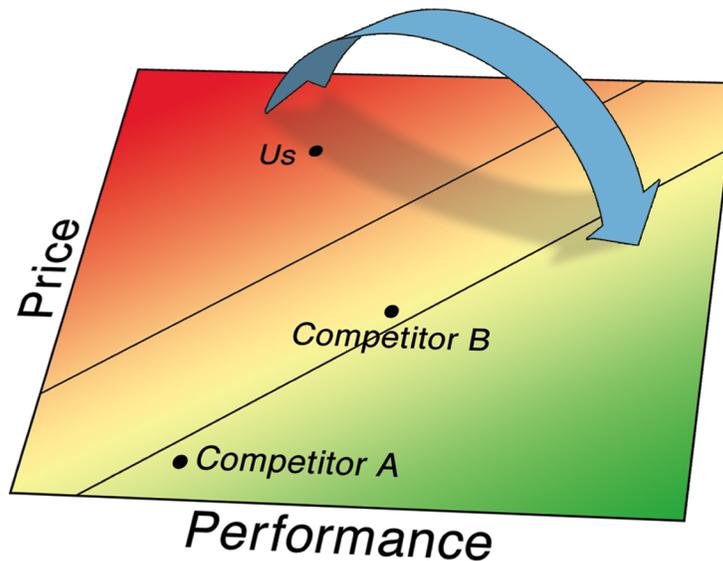


# Value-Strategy Toolkit™

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## *Developing Successful Product Strategies*

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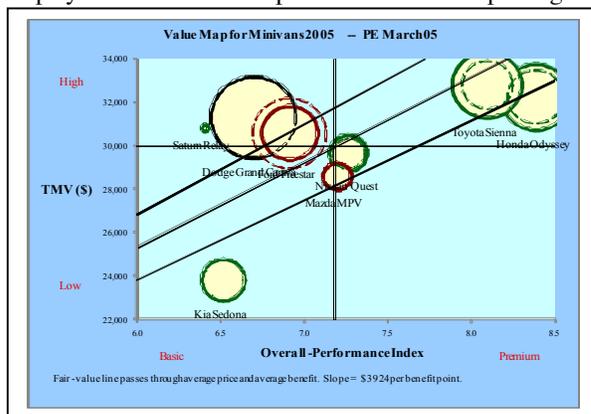
Customer Value, Inc.'s Value-Strategy Toolkit™ is personal-computer software for helping product design, management, and go-to-market teams to increase the value of their offering to targeted customers. The blueprint for the software is derived from Dr. Bradley Gale's classic book, *Managing Customer Value*, the seminal guide for managers on how to define, measure, analyze, and improve customer-perceived value.

The Value-Strategy Toolkit™ uses your data from many alternative or complementary sources: product evaluations, market research, customer satisfaction surveys, competitive intelligence, business plans, and management judgment. It guides you in assembling and organizing data on transaction prices and product performance. It generates analyses and charts that help you develop insights and compelling action plans.

# Compete More Effectively: Manage Customer Value

## The value map

Probably the single most important tool for analyzing customer value, the value map plots your brand's price and overall performance versus competing brands. At a glance you can see which suppliers are offering the basic and which the premium products, which are expensive and which inexpensive, and, importantly, which are over-priced and which under-priced. The value map helps you shift from cost-plus to value-based pricing.



## Value matters

The relative value of the deal is the deciding factor in most customer purchase decisions. Regardless of your business's products - computer chips or potato chips, commercial loans or TV commercials - if customers don't get good value from you, they will shop around to find a better deal.

Good value does not necessarily mean low prices. It does mean that the prices you charge must be justified by the benefits you offer. Many customers will pay premium prices to get superior products and services.

Value matters to customers; therefore value should matter to management. Value can be measured, and, through strategy and operations, it can be improved. Since value is the key to attracting, satisfying, and retaining customers, managing customer value should be your management's number one priority. The Value-Strategy Toolkit™ guides you through the process.

## Advanced Value-Mapping Features in the Value-Strategy Toolkit

- ⇒ *Cross hairs* show average price and average performance in the market category. The averages can be weighted by business size, reducing the influence of marginal players.
- ⇒ *Bubble chart option* shows relative size of different suppliers in the market. *Nested bubbles*, where current market share sizes are superimposed over bubbles showing historical share, let the user investigate the relationship between market-share change and relative value.
- ⇒ The sloping *fair-value reference line* shows points representing a fair price for performance. The slope of this line shows the *price for performance trade off* that customers make -- the incremental monetary worth per point of overall performance.
- ⇒ *The fair-value zone* flanking the fair-value line shows quartiles in the distribution of customer-perceived value.
- ⇒ *The value frontier* option (not shown) identifies the best prices available to the customer at different performance levels. Products located on the Value Frontier are likely to be the market-share winners in the future.
- ⇒ A Value-Strategy Toolkit user can adjust most of the parameters of the chart, such as the scale upper and lower limits, the interval sizes, the slope of the fair-value line, and others.
- ⇒ Users can measure price as a monetary amount, a price index relative to the industry average, or on a scale of price attractiveness (1 to 10). Using monetary prices *enables a monetized analysis of customer-perceived value*, by attribute, where inferences are made as to how much customers will pay for each performance improvement.

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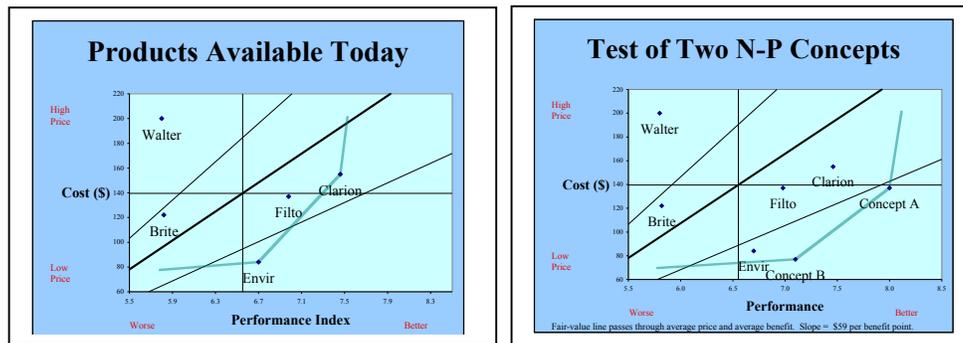
# Innovate More Successfully

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## Test Alternative New Product Concepts

Say you have alternative new-product concepts and you are debating internally which concept to develop. For example, one concept may represent a stripped-down, low-cost solution; another, a full-featured alternative. Your accountants can estimate the costs of the products. But, what prices might the products command? How big a demand might there be for them? The Value-Strategy Toolkit helps you come up with the marketing answers.

With the Value-Strategy Toolkit, you can quickly describe and simulate the alternative concepts. You start by using a value map to understand the price and overall performance positions of the incumbent products. Then you superimpose the new product concepts on the incumbent value map, showing where each fits in price-performance space. This helps you get a feel for each concept's performance, price and relative value position. You can then decide which concepts are worth developing, and peg an appropriate price range.



### Cut through complexity

It is hard to understand the marketing consequences of the myriad design decisions you have to make. In mature markets with technically sophisticated customers, getting the right combination of price and performance is difficult. The Value-Strategy Toolkit can help you cut through the complexity to identify products that will offer a unique value to your customers.

### Link Engineering to Marketing

For many technology-intensive products, product performance is best described by using an array of technical performance measures. The problem is that it is not easy for either marketers or engineers to stare at a large table of comparative engineering metrics and to understand the big picture of where a proposed product's overall performance stands relative to those of the competition.

The Value-Strategy Toolkit has new tools to help you see the big picture. With the new Scorecard worksheet, technical performance metrics can be converted to 1-to-10 performance scores measured from a customer perspective. The Value-Strategy Toolkit can take this multidimensional, *comparative performance scorecard* and use it to generate overall performance scores for you and for your competition. With these tools you can successfully align all of the business functions involved in launching your product.

### Show customers how to lower their costs

Energy costs rise. Technology costs fall. The economics of your customers' businesses shift. Smart suppliers anticipate their customers' economics and create new products that will lower customers' costs. The Value-Strategy Toolkit has cost-in-use templates that help you calculate, document, and explain to customers, how much money your product saves them.

# Know What Your Product is Really Worth

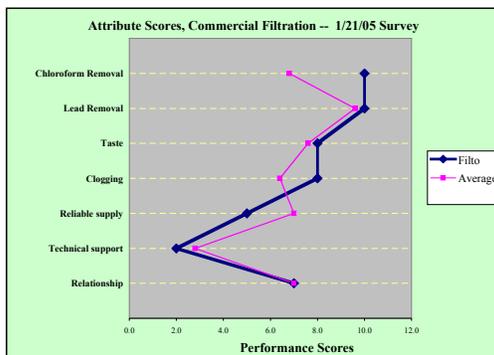
## Value-based pricing

Customers size up your product by comparing it to what your competitors offer them. The Value-Strategy Toolkit lets you compare your products' features and performance head to head against any competitor. It then calibrates what your advantages are worth. You can use this knowledge to set prices based on the worth of your products.

Generally, your prices should be in line with the benefits you deliver to customers. This is the safe course between the shoals of overpricing (alienating customers) and the rocks of underpricing (leaving money on the table). But value-based pricing can be done only if you can calculate what your product, with its unique strengths and weaknesses relative to competition, is really worth to the customer.

## Is our product superior?

A product's worth is based on its performance. Performance, in turn, usually has many dimensions. In using the Value-Strategy Toolkit, you first identify the key buying factors, the attributes of the offer that customers examine in deciding which of the competing products to buy. (For example, shoppers for a new car may examine, among other things, comfort, safety, acceleration, and warranty protection.) Then, for each of these attributes, you assign scores for your performance and for each competitor's performance.



The Attribute Scores Plot compares the different competitors on the key buying factors.

## Appraising performance advantages

The Value-Strategy Toolkit provides estimates of the worth of your product advantages and disadvantages relative to a reference product. By default, the software sets the reference to be the average of all suppliers; some users choose instead to compare themselves against their toughest competitor. As a measure of overall performance, the software constructs a weighted average of the different attribute scores. This composite score is converted to monetary terms using a dollars-per-point conversion factor (the slope of the fair-price line) derived from the value map.

Appraisal of Crestor using Average as a reference				
Calculating the worth of Crestor performance advantages (by attribute)				
Attribute	Worth per unit	Performance measures		Incremental worth of Crestor
		Crestor	Average	
Lower LDL (% Change)	-2.2	-46	-33	28
Increase HDL (% Change)	7.0	7.7	5.5	16
Reduce Trig. (% Change)	-1.1	-33	-24	10
Brand affinity (1 to 10)	2.8	7.5	5.7	5
Safety (1 to 10)	1.2	7.0	6.5	1
Sum (Total worth of Crestor advantages)				59
+ Reference price (Average price)				102
Estimated worth of Crestor				161

## Can you save your customer money?

In many markets, the purchase price is only a part of the customers' costs. For example, the costs of owning a car include not only the purchase price of the car but also the costs of gasoline. If you can convincingly show your customers that the cost of owning and using your product is \$100 less than competing products, then you can justify up to a \$100 selling-price premium. The Value-Strategy Toolkit combines attribute-performance scores and cost-in-use analysis using the following equation:

$$\begin{aligned} \text{Justified (Fair) Price} = & \text{Price of reference product} \\ & + \text{Value of your performance advantages} \\ & + \text{Cost savings in using or owning your product} \end{aligned}$$

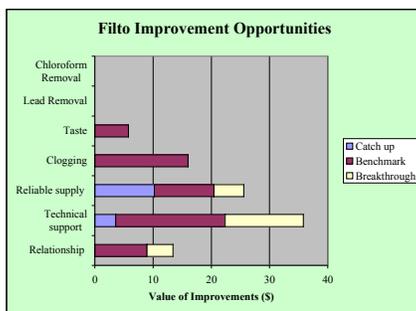
We show the calculations in the *price section of the Scorecard and the Product Appraisal Table*.

# Hone Your Value Proposition

## Position your products to earn market share and premium prices

Your value proposition is the set of promises you make to your customers that set you apart from the competition. You may offer superior performance on a carefully selected set of buying factors, or you may offer the lowest prices. Often you may choose to sacrifice in some areas (say, for example, the array of features) in order to excel in other areas (say, price.) How you make these tradeoffs is central to your marketing strategy, and will drive your success in the market.

## The Value-Strategy Toolkit helps you craft your value proposition



The *Value-Strategy Toolkit* contains a number of analytic displays that help you understand what actions you can take to offer a highly competitive product or service.

The Opportunities-for-Improvement chart benchmarks your performance scores against the average, best-in-class, and breakthrough scores in your industry. It shows which performance attributes you should work on to increase the worth of your product to customers.

Other analytics include the attribute-score comparison chart and the attribute positioning plots of importance vs. performance. These help you understand the strengths and weaknesses of your current offering, and identify priorities for actions to improve your performance.

## Apply the right levers to improve your positioning

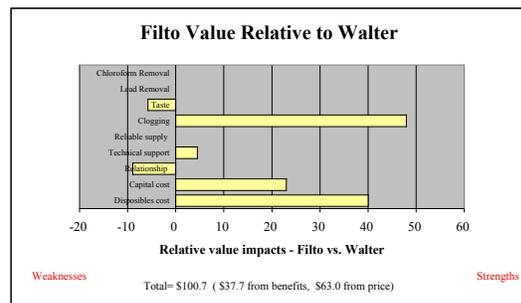
There are many ways that a business can improve the value of its products to customers. Some of the management levers include:

- Product-improvement programs
- New product introductions
- Service improvements and process redesign
- Factory and “back-office” programs
- Advertising and sales initiatives
- Segmentation and differentiation projects
- Pricing

Improving customer-perceived value has two components. The first is to be able to *deliver* superior benefits at a fair price. The second is to *communicate* your strengths to customers and to correct misperceptions that hurt your product. The levers listed above touch on both components.

## Use the Head-to-Head chart to display your advantages and disadvantages

The input into the Value-Strategy Toolkit is a *comparative performance scorecard* that displays the product offers side-by-side. Often these data come from product evaluations. In other cases, the ratings come from market research, representing a sample of the opinions of customers, or from one-on-one interviews with customers. (Such interviews are often a part of the key-account management system.) The *Value-Strategy Toolkit* uses this data to identify your comparative advantages and guide your communications strategy.



# Align Your Management Team

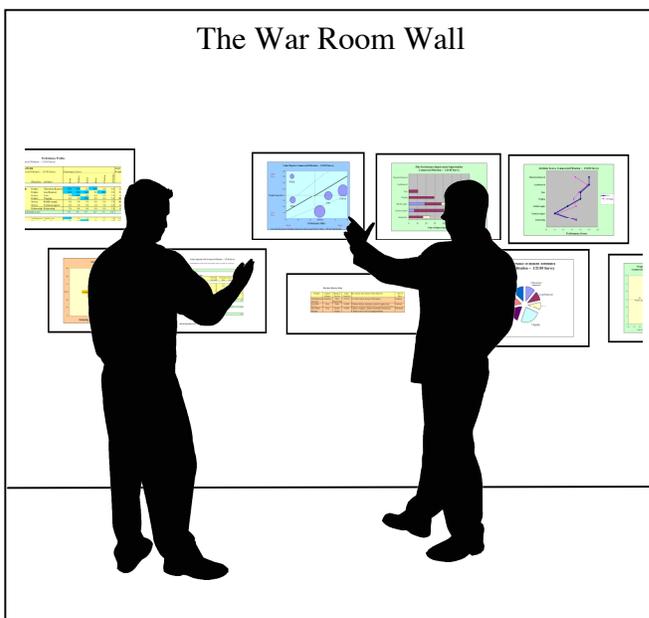
## Strategic programs for improving value

Customer Value is a great focus for a business plan; it (a) produces results and (b) provides a unified vision that involves all of the business's functions. Generally, high-level objectives are achieved through a set of strategic programs that coordinate the use of management levers toward achieving specific performance objectives.

*The Value-Strategy Toolkit* provides a number of templates that help you specify your strategy for competing effectively.

Attribute	Program / Objectives			
	Competitive Objective	Expand Field Engineering	New CRM system	Filter holder redesign
Chloroform Removal	Leader			
Lead Removal	Leader			
Taste	Strong			
Clogging	Leader			X
Reliable supply	Moderate		X	
Technical support	Strong	X	X	X
Relationship	Strong		X	
Capital cost	Low cost			
Disposables cost	Moderate			

The *Value-Strategy Toolkit* templates help you document your objectives and identify who does what by when to achieve them.



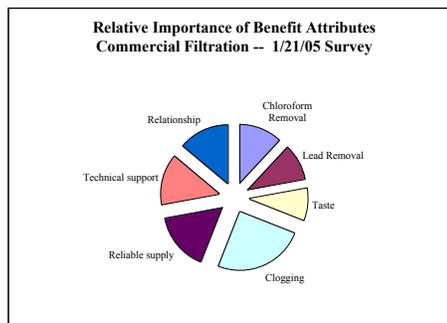
## Design a high-energy war room

Do your strategy meetings produce open sharing of information, high quality discussion, and clear action steps? If not, try ditching the traditional Powerpoint presentations and transform the conference room into an action-oriented war room.

Use the Value-Strategy Toolkit to generate the key displays on pricing, value propositions, sales strategies, and action items. Post the displays on the wall and review the key points interactively with the team. Keep the Value-Strategy Toolkit software running to keep your data current and simulate alternative strategies. Keep your team energized, focused, and on target.

## Value Selling helps you capture the worth of your performance advantages

Many companies leave money on the table because they feel they must match competitor prices. Companies who pride themselves on providing superior products and services can profit by pricing consistently with their advantages. But doing this requires effective two-way dialogs with the customers to help them verbalize their non-price needs. The Value-Strategy Toolkit produces charts that can be used by a key-account sales team to prepare for a productive customer dialog.



The *Attribute-Importance Pie Chart* can provide a focus for product "listening sessions" with key accounts.

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# Features of the Value-Strategy Toolkit

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## Customer-value Accounting calculator

- Compares competitors on price and performance scores
- Analyzes importance to customers of price and performance differences among potential suppliers
- Positions products on a Value Map
- Calculates a fair price for each offering and compares to actual prices
- Produces a Product Appraisal Table versus any competitor
- Calculates the economic worth to customers of your performance advantages and disadvantages

## Support for Value-Based Pricing

- Product Appraisal Table
- Value Pricing Chart
- “Slider controls” for simulating pricing strategy
- Flexible logic estimating and documenting costs-in-use on comparative scorecard

## Simulating alternative product designs/features

- Simulates how changes to benefit metrics, prices, or importance weights would affect customer-perceived relative value.
- Analyzes “what-if” scenarios using value map and product appraisal table
- Helps you set realistic targets for overall performance and price

## Defining the business and market

- Places current and potential competitors on a chart to help define your business and its competitive space.
- Product/Market matrix clarifies how to segment a market for competitive analysis.

## Tools for crafting a value proposition

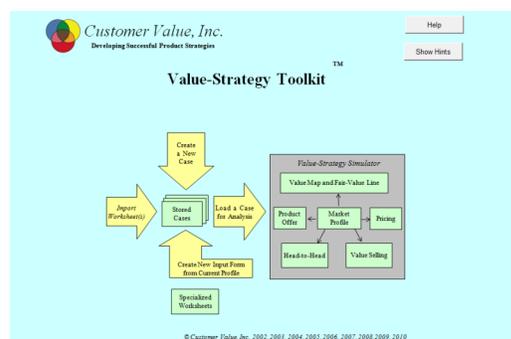
- Attribute score comparison
- Attribute positioning chart showing importance vs. performance-gap
- Opportunities-for-improvement chart
- Comparative advantages table

## Performance Standards & Weights template

- Provides initial/default values for basic and premium performance, by attribute
- *User* rank orders attributes based on added worth of *moving from basic to premium performance*
- Assigns a set of relative attribute-importance weights from the rankings
- Stores weights from other sources

## Overall Performance Score calculator

- Transforms attribute-specific metrics (laptop-weight in pounds, battery-life in hours) onto a common, 1-10, scale
- Calculates a weighted-average, overall performance score for each product
- 



## User-friendly design

- Control Panel allows “push-button” triggering of major software functions.
- Program is built on Microsoft Excel (Excel 2000 or later required) allowing easy interface with other files and adding flexibility for users familiar with spreadsheets.
- Software can house many scorecards representing alternative market segments or competitive scenarios.
- It is easy to generate exhibits with your Value-Strategy Toolkit and transfer charts to Word or PowerPoint.