

Voice-of-Customer Programs and Value-Based Pricing

In this article, the authors explain why VOC (voice-of-customer) research programs should be an integral part of the value-based pricing process. Stephan Liozu (www.stephanliozu.com) is the Founder of Value Inruption Advisors and specializes in disruptive approaches in innovation, pricing and value management. He earned a PhD in Management at Case Western Reserve University and can be reached at sliozu@case.edu. Linda Trevenen is Director of Marketing Excellence at Philips Home Healthcare Solutions (www.linkedin.com/in/lindatrevenen) and specializes in customer centricity processes. She can be reached at ltrevenen@gmail.com.

So you think you can implement value-based pricing without designing and deploying voice-of-customer (VOC) activities? Think again.

Pricing based on customer value requires the design and implementation of advanced and robust voice-of-customer programs. This is why it is called customer value-based pricing! VOC is needed at multiple stages of the methodology and this is why it is considered the most complex and demanding pricing orientation. It is also the orientation that requires a great amount of market research investments.

Now, of course, you can pretend to do value-based pricing and use input from a few customers and internal assessments from the sales team. We have all done this, especially when times are tough and budgets are being cut. But this ap-

proach can only provide preliminary test data. In no way, can these internal assessments substitute the feedback from hundreds of customers whether you are doing a segmentation study or pricing research.

VOC Programs

VOC research programs should be an integral part of the value-based pricing process. It starts with a customer-need segmentation that will cluster customers based on what they want and why they buy for their suppliers.

VOC also is an important part of the value modeling, the value mapping and the value messaging processes. For example, a recently published paper on value modeling identifies nine market research methodologies that are typically used to assess customer economic value. Value-in-use analysis is one of these nine methodologies and probably the most advanced one.

Finally, VOC data is equally important in the front-end of innovation to make game-changing discoveries that will generate greater willingness-to-pay, but also in all dimensions of pricing research. Best-in-class companies that use value-based pricing have integrated VOC in all

stages of the pricing process, in their innovation process and in their marketing excellence programs. Most likely their pricing and value management teams work closely with their market research departments.

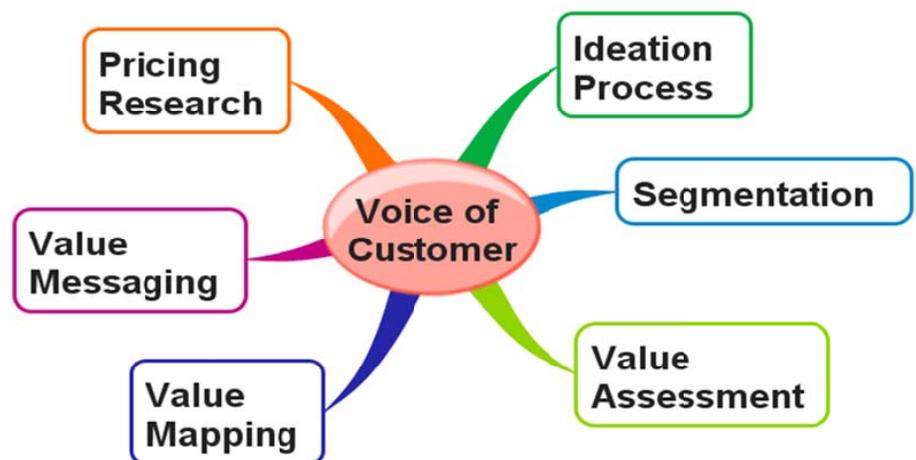
Customer Centricity

Prior research on value-based pricing revealed that its adoption and internalization required a change of organizational DNA. Customer value becomes the core concept of this DNA change that requires a customer-centric mentality.

What do we mean by customer centricity? Customer centricity begins with knowing a target audience better than they know themselves. It requires training of all customer-facing employees as well as of those who identify customer specifications for innovations so that they can understand the proper VOC process that will extract the right data from target customers. The proper VOC process is about what and how you listen to customers to increase the understanding of their perceived value and behavior-changing motivations.

The VOC process starts with the identification of key value drivers of the target audience. Generally, value drivers are the

Figure 1



main motivators that prompt an audience to commit to an action of choosing a brand, a program, making a time investment, or paying additional money, etc.

In the case of business owners for example, they may be motivated if they can increase their revenue, reduce their costs, improve their company reputation or improve their return on capital. Therefore, the first task in understanding what customers value is knowing how to identify and prioritize their value drivers.

Questions to ask might include:

- “How do you define success for your business?”, or
- “How would you describe the key factors that influence your success measures?”

If a key value driver is to “improve productivity” for example, the focus is on optimizing employed labor rate and labor throughput. In that case, follow-up research questions would focus on the specific activities they undertake to min-

imize their labor cost base. These activities might include training or recruiting employees, purchasing materials, managing finished goods, reducing employee error rates, etc.

The goal is to identify the specific activi-

Investments in voice-of-customer programs are a critical and a necessary part of the process. You cannot do this on the cheap and you have to learn how to ask the right questions.

ties that the business owner prioritizes and recognizes as a factor for improving productivity. The trick is really to probe customers with in-depth questions and to let them communicate their thoughts, calculations and methods in their language. Therefore the focus is on listening and probing with relevant questions.

The follow-up step of the process is to quantify how much value an improvement in each of these activities might deliver. Bottom line, being in tune with customer needs does not require any

selling but rather focuses on uncovering new ways customers can fulfill their objectives by partnering with you and adopting your technology. This is the difference between being product-centric and customer-centric.

Value-based pricing is a difficult journey that requires change and investments. When you do it right though, you might uncover real customer needs, relevant levels of willingness-to-pay and you might be able to communicate value with impact.

Be bold. Join the value-based revolution!

An eBook by the authors further explaining value modeling can be accessed at www.stephanlioze.com/index.php/store.