Value Pricing and Selling Concepts

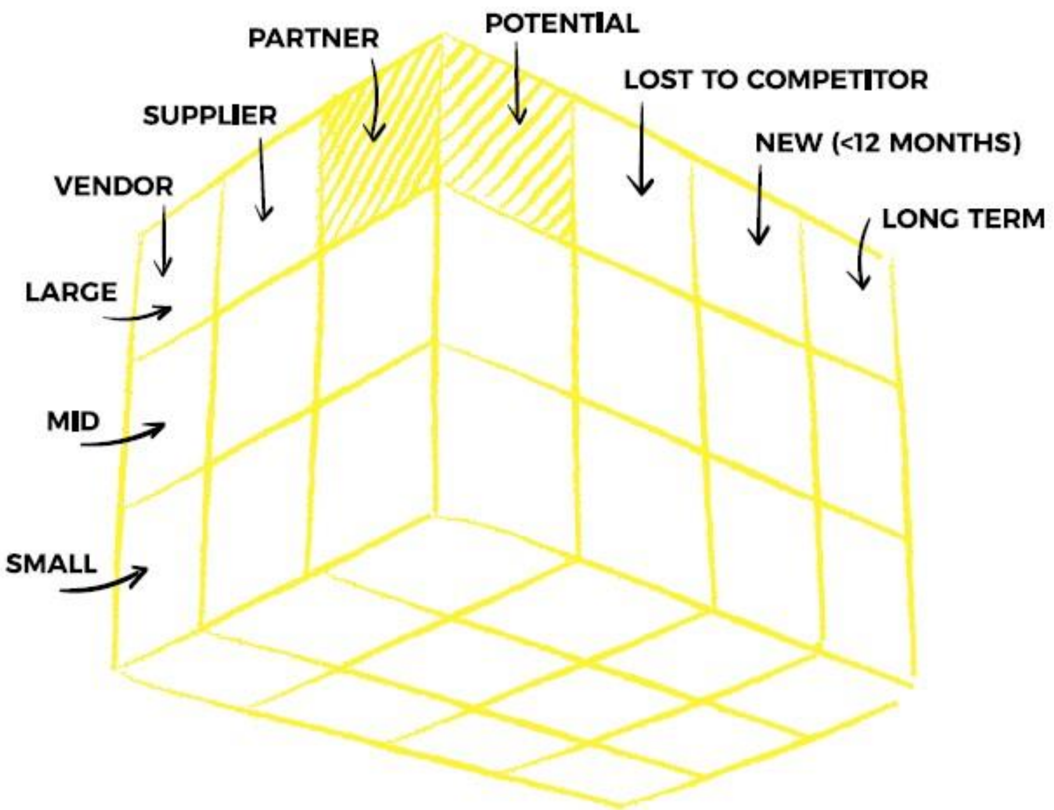
**It’s not what you sell.
It’s who you sell to, and why are they buying.**

PRICING INSIGHT

Value Pricing is about setting the price based on the value to the buyer.

Pricing power is more often a function of who you sell to—not what you are selling. The same item for one customer may be worth 10x more to another, depending on motivation to buy (their “why”), how the product or service will be applied, and who ultimately pays for the service.

36^3™ Market Segment Model



This “36 cubed” market model was developed to explain price variations and potential pricing opportunities at a key account level. Value pricing’s power is derived by evaluating how the customer perceives your products and services--not how you classify them.

Vendor: Value pricing opportunities are low

Customers may perceive you to be a commodity provider and thus a low-status vendor relegated to the tactical purchasing quadrant. The relationship is highly transactional. The pie is often seen as shrinking and there is great debate about what share of the pie each party will get.

This business is primarily won on price. It is also easily lost on price.

Supplier: Value pricing opportunities exist

Other customers may see you as a supplier--a provider of some strategic importance, with the ability to offer more than just transactional arrangements. You may provide operational reports, technical assistance, additional products or services, or some form of customisation.

This business is won with a combination of competitive pricing and a compelling service/quality offer.

Partner: Value pricing opportunities are high

In this customer dynamic, your agreement and value are deeply integrated with the customer's supply chain. There is a focus on mutual driving of value and sharing of intellectual property to drive cost out of the business, but not at the expense of margins for either party. There may be pricing discussions, but they are aligned with mutual goals to grow the pie.

This business is earned by way of value creation and the generation of more value from working together, rather than working alone or with a third party alternative. It is neither won nor lost on price.

These three types of customer relationships--Vendor, Supplier, and Partner--come in many shapes and sizes, but they can be classified and small, medium, and large major accounts using a simple distribution curve to determine the relativities and size cut-offs for each category.

You can then classify these businesses as either:

"Potential" – yet to be a customer
"Lost to competitor" – we had them but lost them
"New--less than 12 months old" – we have recently won this business
"Long Term" – business that has been maintained for longer than 12 months

Practical Exercise

Review and classify all of your customers into one of these 36 market segments or "cubes". Now, analyse the gross margins for each market segment (or potential gross margins, in the case of the potential customer segment). Ask yourself:

1. How much gross margin opportunity is available in the partner and supplier potential segment?

2. How much time was spent cultivating this segment?

3. How much time was spent dealing with the headaches generated by the small and mid-size low-margin Vendor grade customers?

4. What is the opportunity cost of dealing with Vendor grade customers?

Your pricing power is dependent on who you sell to—not what you sell.

To arrange a discovery call, please go to www.pricinginsight.com.au to schedule a booking.

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