

What is Value Management? (And why you should care)

November 2012

A position paper from an open group of value management practitioners and consultants.
(See final page for participants.)

“The final question needed in order to come to grips with business purpose and business mission is: “What is value to the customer?” It may be the most important question. Yet it is the one least often asked. One reason is that managers are quite sure that they know the answer. Value is what they, in their business, define as quality. But this is almost always the wrong definition. The customer never buys a product. By definition the customer buys the satisfaction of a want. He buys value.”

Peter Drucker, *Management: Tasks, Responsibilities, Practices*, 1993

Value Management: The management discipline of providing value to customers while ensuring that providing value results in profit. Value management is a holistic approach that results in alignment between product management, marketing, pricing, sales and other business functions. The goal is sustainable and profitable revenue growth.

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By the Value Management Advocates

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Value management and its related disciplines have become a hot topic in the business press, within leading companies and among consultants. Advocates, and we are among them, assert that value creation and capture can and should be what companies optimize. By value is meant **the value provided to customers**, not the value extracted from customers or shareholder value. Value management is a holistic discipline that supports the cycle of **Create → Communicate → Capture → Assess** Customer Value, all based on a foundation of Understanding. This cycle is sketched in Figure 1: The Value Management Cycle.

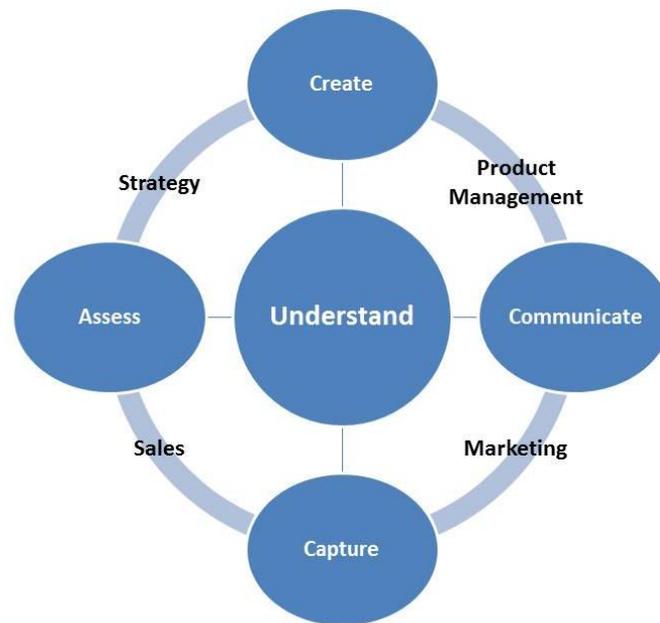


Figure 1: The Value Management Cycle

What is Value?

Value can be a slippery term and it is used in many different ways. In value management the term is understood as follows:

- Value is relative to an alternative – value cannot be judged in isolation.
- Value is composite and decomposable – value can be analyzed into a set of value drivers.
- There is more than one aspect of value – in B2B the most important aspect is the economic, but other aspects such as the emotional, environmental and social value can also be considered.
- Value can be quantified – economic value can be quantified in a currency, other aspects have their own forms of quantification such as Quality Adjusted Life Years in healthcare or Carbon Footprint for green solutions.

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The standard way to quantify economic value is shown in Figure 2: A Standard Economic Value Model.

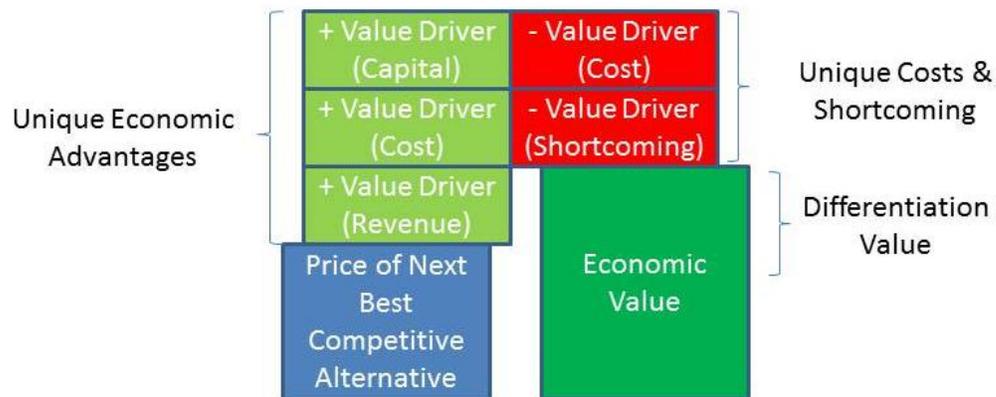


Figure 2: A Standard Economic Value Model

There should be a mapping from the value metric (the way in which the customer gets value) to the pricing metric (the way in which the seller charges for value). For example, the value of a surface coating may derive from the area covered, while the price may be quoted in volume.

Value management relies on multiple streams of information from inside and outside the company. Both internal and external perspectives are necessary. Information about customers, competitors, demand, offers, costs and production constraints are all used in value management.

How will Value Management benefit my company?

Value management **delivers profitable growth**. It does so in the following ways:

- Innovation is focused on products and services that provide value to the customer (innovation that does not provide additional value relative to the best alternatives is money that is thrown away)
- Markets are segmented and pricing architecture structured around how the customer gets value (this helps to maximize prices across the full range of potential customers)
- Value is communicated in marketing messages (so that messages can rise above the noise of generalized claims)
- Prices are based on how and how much value customers get from your solution (helping to manage discounting and commoditization pressure)
- Sales negotiations are shifted from demands about price to tradeoffs on value (controlling discounting and managing costs)

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Value management shifts innovation from a feature-cost orientation to a customer-value orientation as is shown in Figure 3: Moving to a Customer-Value Orientation.

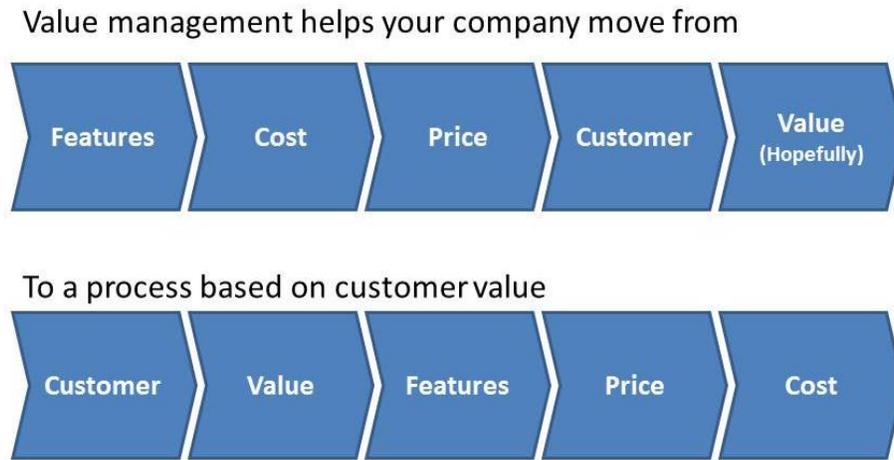


Figure 3: Moving to a Customer-Value Orientation

What disciplines are based on value management?

Value management is being applied with great success in many sectors, from specialty chemicals and building materials, to software and medical technology. It is applicable anywhere there is meaningful differentiation between offers for buyers. It is primarily used in business-to-business (B2B) but can be applied in business-to-consumer (B2C) when economic factors shape buying decisions. And remember that for a consumer goods company, selling to a distributor or retailer is a B2B relationship.

Value-Based Marketing

Marketing based on insights about customer value. This can include everything from segmentation and targeting to the construction of specific value messages.

Value-Based Pricing

A Value-Based Price is designed and communicated such that all parties understand, recognize and accept the distinctive worth of products and services purchased in the transaction and participate optimally in the gains created by their use. Pricing metrics are based on or can be converted to value metrics. Offers are constructed so that customers that receive similar amounts of value in similar ways are in the same price segment. Discounting policies are based on differences in differentiation value or on decisions to invest in a target customer or segment.

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Value-Based Product Management

The use of customer value to shape decisions on product and feature investment and to guide understanding of the target customer's business needs. One can begin product development by creating a 'target value model' and then validate this aspiration. Value models are also used in many stage gate processes. The value drivers in the models can be used in market segmentation.

Value-Based Selling

Customers are targeted based on value drivers and differentiation value. Value messages (based on value drivers) are used in the sales process. Information about customers and competitors that can be used to evolve value models is captured in the selling process. Offers are constructed and prices negotiated based on differentiation value.

What should I do next?

- [Join the Professional Pricing Society Group on LinkedIn](#) and engage in the conversation.
- [Read one or more of the books on the field.](#)
- Contact one of the people on the next page.

Value Management Advocates

[Ed Arnold](#)

[Harry Macdivitt](#)

[Jerry Bernstein](#)

[Gautam Mahajan](#)

[Patrick Campbell](#)

[Augustin Manchon](#)

[Steven Forth](#)

[Aaron Miller](#)

[Jim Geisman](#)

[Reg Nordman](#)

[Adrienne Gordon](#)

[Chris Provines](#)

[Andreas Hinterhuber](#)

[Dick Sobel](#)

[John Hogan](#)

[Mark Stiving](#)

[Chris Hopf](#)

[Mike Wilkinson](#)

[Vernon Lennon III](#)

[Ralph Zuponcic](#)

[Stephan Liozu](#)

(Please contact Steven Forth if you would like to endorse this position paper and add your name to this list steven.forth@gmail.com.)

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