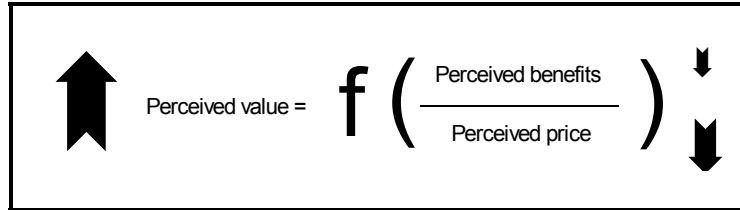


Becoming better value

ie increasing value by cutting prices - or, more accurately, by reducing your perceived prices by more than you reduce your perceived benefits



Many firms seem to believe that cutting prices is the only strategy open to them. It can, of course, be a valid strategy. But it can also be a very risky one. Its three main attractions are usually that:

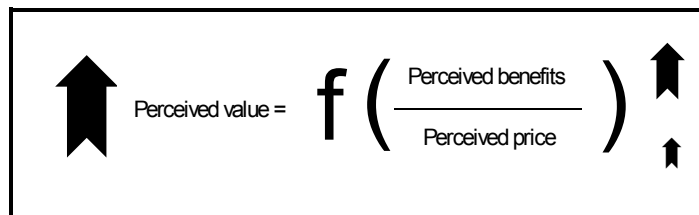
- 1 Firms believe it is what their customers want;
- 2 It is very easy to implement; and
- 3 It offers scope for cost-cutting, ie as the perceived price is cut it will also be possible to reduce the perceived benefits and still increase the customer's perception of value.

Unfortunately this strategy also has two very serious risks:

- 1 A low price strategy is very easy for other firms to copy. This means that it is unlikely to provide a competitive advantage that is sustainable in the long term. It is much more likely to lead to a painful and possibly fatal price war.
- 2 And even if your competitors don't respond by cutting their prices, you may still suffer from a strange quirk of human nature. When we can't fully understand something we tend to assume that its price is a good indication of its quality. If the price is low we often assume that the quality must also be low. And if we think the quality is low we also perceive the benefits as being low. As a result the two elements in the value equation are not completely independent. When prices fall customer's perception of the benefits can also fall - and so too may their perception of the value. This can lead to a vicious circle of falling prices, falling perceived value, falling loyalty, falling demand and falling profit.

Adding value

ie increasing value by providing more benefits of the type the customer wants and managing their perceptions better. In other words, increasing your perceived benefits by more than you increase your perceived prices



In contrast to a price cutting approach, adding benefits and managing customer perceptions can lead to a virtuous circle of rising prices, rising perceived value, rising loyalty, rising demand and rising profits.

The three value levers

- 1 **Benefits** - Which for most customers are the *solutions* they get (ie how well the supplier solves their needs, wants and problems) and the *service* they get (ie what else the supplier did for them and how it made them feel).
- 2 **Price** - Which, in this context, means everything that the customer needs to give or give up in order to get the benefits.
- 3 **Perceptions** - Ultimately the only thing that really matters is the customer's perceptions of the benefits and price. The *real* benefits and price are important only to the extent that they influence the customers' perceptions. As Tom Peters once said, "perceptions are all there are".

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