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FACULTY OF BUSINESS ECONOMICS
Master of Management

Master's thesis
Value based pricing: the least valued pricing strategy

Supervisor :
Prof. dr. Pieter PAUWELS

Bob Hoenen
Thesis presented in fulfillment of the requirements for the degree of Master of Management

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Bob Hoenen

Eijsden, January 2017

Management Summary

The main purpose of this thesis is to analyse the least valued pricing strategy: Value Based Pricing (VBP). Pricing has been one of the least researched topics in marketing, although within these pricing strategies: cost-plus pricing is considered as the leading pricing strategy worldwide. Why should companies use such an unprofitable strategy, where fighting for a higher market share due to low prices is more a rule than exception? VBP is one of the most underestimated strategies by organizations. The definition of VBP is: “value pricing applies to products that have the potential of being differentiated from competitors’ products” (Farras, 2012, p.35). Taking this definition into account, a VBP strategy gives organizations the unique opportunity to sell an offering by its value instead of price. Nonetheless, two conditions need to be fulfilled: to what extent can organizations differentiate their offering (1) and is it perceived as a commodity? (2) In case the offering is perceived as a commodity, VBP is not likely to occur. The same logic applies for oligopolistic markets, as the definition of oligopolies states that differentiation between organizations’ offerings is low and few players dominate the market. These two conditions are the only two conditions forcing organizations towards a cost-plus strategy. As long as organizations can differentiate, at least on one specification (i.e. differentiation is possible), a VBP strategy is a relevant strategy.

Part one deals with the description of the used methodology and the introduction to the research questions, where part two answers all these research questions and finally gives some propositions for further research. The main purpose in these two parts is to find out what organizations internally need to do to adopt a VBP strategy, why customers adopt such a value based pricing strategy and how competition can force organizations towards other pricing strategies than VBP. These three questions all based on Ohmae’s (1983) 3C’s, lead to the main question: why should companies use a Value Based Pricing strategy? To gather a

basic understanding of pricing, pricing strategies and environmental issues that come with a strategy choice, many scientific articles were selected as sources for this research. These different theories were tested in expert interviews to find evidence for the proposed VBP theories and models.

The main conclusions of this research is: why companies should use a VBP strategy. Concerning a VBP strategy, the first and only two vetoes decide whether the organization's offering is applicable for VBP. Organizations need to ask themselves: do I offer a perceived commodity or a differentiated product? And, does my company act in an oligopolistic market? If the organization offers a commodity, it will be unable to sell with a VBP strategy. Subsequently, if the organization acts in an oligopoly, it will be very unlikely VBP will be a success as competitors force other pricing strategies over (short) time. A future quantitative research could research whether there is a relation between these two main variables and VBP. Subsequently, the variables based on the 3C's: commoditization, (in)tangible benefits, value quantification, gain sharing, request for proposal, oligopolies, entry boundaries, substitutes, top-down, sales force and outside-in; should be researched to find any correlation as well. This research finds evidence that these other variables could enforce or weaken the strategy decision as well.

Although, answering the main question why companies should use a VBP strategy is very brief. VBP gives an organization the advantage of visible and recognized differentiation. Both at an internal as external level, everyone know why the offering is worth paying more, solely based on its value elements. This strategy is maybe the least valued one; nonetheless, this research expects it to become the leading pricing strategy within a couple of years, as emphasis on value increases and volume selling with small margins is not viable anymore.

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PART I:

Research Questions & Methodology

1 Preface

The traditional 4P marketing mix is researched extensively throughout the 20th and 21st century. Nonetheless, the P of pricing is the topic leaving an empty space as approximately 95% of the research deals with the other marketing mix P's. Only ca. 5% of the existing research deals with pricing. Authors such as Noble & Gruca (1999) researched pricing in the past. They wrote an article about different pricing strategies. Their main focus in this research was the United States and B2B companies who are merely using a cost-plus strategy and its equivalents. Cressnan (1999) had several remarks on Noble & Gruca's research and wrote this in an analytical critique. The main issue that Noble & Gruca missed was one of the generic pricing strategies: Value Based Pricing (VBP). Although, Cressnan (1999) noticed that the research was incomplete and only based on a local scale (United States) instead of the worldwide economy.

Cressnan's critique led to a certain paradox in a B2B context: How do organizations ca. 20 years later, feel about VBP or even value based pricing today? Why is the research on VBP so limited, with respect to the other pricing strategies? While Noble & Gruca (1999) focused on the U.S. market, this research focuses on a worldwide scale and researches how organizations think and value VBP strategy nowadays. For example: Farras (2013) stresses that value has become more and more important, as he defines: "Value pricing means setting the sale price based on the value a product can deliver to customers rather than as a mark-up of the product's cost" (Farras, 2013, p.34) and "value pricing applies to products that have the potential of being differentiated from competitors' products" (Farras, 2013, p.34) In nowadays economy, this strategy could make a difference for organizations who are trying to generate higher profits based on products and services value elements.

2 Research Question

Cressman's (1999) critique raises a crucial question regarding VBP and actually raises even more than one question. Why do organizations in a B2B market prefer not to use VBP and what reasons force those organizations to use a different pricing strategy other than VBP. The focus and main research question during this thesis is: *why should companies use a value based pricing strategy?*

Based on the central research question a number of research questions have been formulated in order to answer the central research question. The first research question is: *what is Value Based Pricing?* This question will focus on finding a definition, which will be used throughout this research. Subsequently, this definition leads to what could influence an organization's choice of using a VBP strategy or what makes it impossible to use such a strategy. The second question is: *what conditions influence the success or failure of a Value Based Pricing strategy?* Thirdly, due to the conditional influences, this research tries to link some success factors and some major pitfalls of the VBP strategy. The essence of using a VBP strategy is motivated by its success factors. Therefore, the third sub-question: *what is the added value of a Value Based Strategy?* merely focuses on the 'why' firms should adopt or even consider this strategy and searches towards the added value of such a strategy, taken other pricing strategies into account. Finally the implementation of a VBP strategy will be examined. How do organizations overcome boundaries and what difficulties do they face? The fourth research question is: *How can organizations implement a Value Based Pricing strategy?* This question compares real life examples of cases and companies that tried or did implement a VBP strategy.

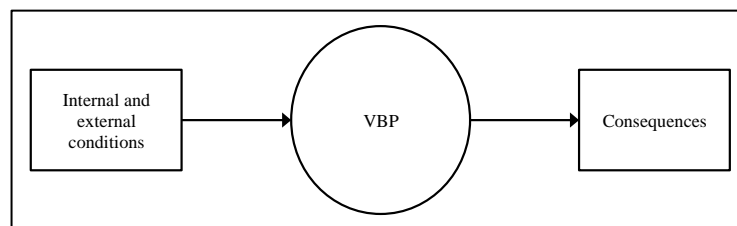


Figure 1: Research Framework

3 Research Methodology

This chapter is assigned to the methodology that is used in this research. Each chapter in part II focuses on one of the subquestions and explains the motivation of using a specific type of research. This research exists out of qualitative research and a literature review and has both characteristics of an explorative and descriptive research. This research will be concluded with a number of propositions that could be used in future research.

In the first place, a theoretical background is necessary to answer the research question and its subquestions. Reading and analysing academic articles were necessary to gather this theoretical background. Focussing on different pricing themes, pricing strategies, VBP, pricing environments, etc. lead to ca. 30 suitable scientific articles for this research. This rough data gathered in the literature, lead to a basic understanding of pricing strategies and more specific VBP. Each subquestion has its own specified methodology that is partly literature review and partly qualitative research.

I What is Value Based Pricing?

The first question is firstly solved through a literature review, finding the definition for VBP is essential to answer this subquestion. Writers like Farras (2013) and Noble (1999) acknowledge both a definition of value (based) pricing. Actually, there is no consensus regarding a VBP definition. This chapter will therefore be divided into different parts: different pricing strategies, pricing models, scales and finally a conclusion. Secondly, the definition is tested in the interviews to test whether the theory is applicable in reality. More specific, the scale where pricing strategies can be measured is based both on the literature and the interviews. The conclusion is used to present the VBP definition that will be used throughout this research.

II What conditions lead to the adoption of a Value Based Pricing strategy?

The second question deals with the conditions focusing on two different aspects: external conditions and internal conditions. These conditions are split up, while the external conditions most often cannot or only partly be influenced by the organization itself. On the other hand, internal conditions can most often be completely influenced by the organization. The external conditions will be researched through a literature and qualitative research. Ohmae (1983) describes three strategic C's, the external side exist out of competition and customers. The literature review will be based on these two main factors. Next to that, the research defines several external factors that could affect this strategy e.g. competition, offering products at very low margins in a highly competitive market. The organizational focus in such a market environment, for instance, is only on volume instead of profit and value maximization. The question in that case would be: do all these environmental factors influence a VBP strategy or not? In the first place, a theoretical base is formulated and secondly these finding about influential external conditions are tested in the expert interviews.

The second part on conditions deal with those factors an organization can influence; Ohmae's third C: company. The main focus in this part will be on what boundaries do managers need to overcome to convince management and sales people to make VBP a success? Firstly, the theoretical base will be described and secondly, these described theories are tested in in-depth interviews and cases.

III What is the added value of a Value Based Strategy?

The third research question identifies the true added value of preferring a VBP strategy to other pricing strategies. So, where is the value for the organization – driven by an economic value – and where is the value for the customer – driven by value elements.

Therefore, the literature review describes three main criteria in grading the added value of a VBP strategy. Firstly, an economic value analysis will be defined. Next, a method will be defined to help organizations with their decision making process. The economic value analysis is based on literature and subsequently, the interviews proof that an economic value analysis is actually used by pricing experts and organizations that switching towards or currently using VBP. Secondly, the value allocation of a product or service is considered as the second main theme in a pricing analysis, this value allocation is mainly based on one of the interviewed companies: DSM, who wrote a complete manual for marketers and engineers to revise the current price and building up a new value based price. Finally, the tangible and intangible benefits will be researched as a value-adding tool regarding VBP. Literature extensively focuses on those tangible and intangible benefits regarding pricing strategies. Interviews proof that being a part of a brand – even in B2B – leads to a different perception. For example a trustworthy organization that asks a higher price to secure its supply chain and always having enough stock can be considered as intangible value elements that as well literature as experts describe.

IV How can organizations implement a Value Based Pricing strategy?

The fourth research question deals with difficulties that organizations can face during their switching considerations from the current pricing strategy towards VBP. The implementation issues, as revealed in earlier chapters, will be tested in four different cases. These cases are based on existing companies in different countries. Those cases do have one thing in common: their willingness to switch towards a VBP strategy. These different (value) elements lead to several boundaries and implementation issues. To test this cases regarding their suitability of VBP, the rough data presented in the

cases is transformed and analysed on five different aspects. The first three elements are based on the conditions that can lead towards the adoption of VBP: Competition, Company and Customer. The last two elements are based on the added value that VBP can offer and the analysis of retrieving these value elements: an economic value analysis and the tangible and/or intangible benefits. This question is the most normative one and provides companies an example of the exercise they should perform to test whether the company and its product (portfolio) is suitable for a strategy such as VBP. One of the interviews actually proved that pricing consultants actually do a similar exercise to reveal the differentiating elements and the environmental complications.

The qualitative part of this research is based on three interviews with true pricing experts. These three experts fit in the created profile, which was necessary for this research. These professionals are familiar with pricing strategies to a high extend. Even more important, they do need to make pricing decisions or influence the decision-making unit of an organization. Function titles that match these requirements for this research are: pricing manager, change manager, founder, commercial manager, managing partner, CEO, COO and (vice-) president. A lot of companies were contacted to learn more about their pricing strategies and more specific the question why they choose to use VBP or why they do not choose this pricing strategy. Companies like Medtronic, DHL, Carglass, DSM, Ingram and the Pricing Company were contacted. Due to restrictions on confidentiality regarding pricing strategies, most companies did not reply on the request for an interview. Nonetheless, the researcher succeeded in interviewing three experts regarding pricing strategies. As scheduling and getting interviews was a difficult exercise on its own (due to confidentiality), these three companies are highly valued for this research. Next to that, these three companies are using their pricing strategies in three completely different ways.

The first interviewee: Ivo Gubbels, is a former DSM change manager. At that time, DSM was implementing a program called Excellerate. This program was launched to change DSM's complete pricing approach for its portfolio. Basically from a cost-plus strategy towards a VBP approach. Gubbels redefined, calculated and visualized a lot of different products of DSM and decided whether they were viable to enter DSM's VBP strategy or not. Subsequently, Gubbels and his colleagues needed to motivate their decisions regarding the pricing strategy throughout the company, from the board to DSM's sales people (i.e. top-down). The advantage of DSM is the innovative characteristics of the company in the chemical sector. The differentiation ability of their products helps DSM to use different pricing strategies. Due to Gubbels' experience level on pricing strategies, he will be considered as the first expert throughout this research.

The second interviewee: Michiel Alting von Geusau, is currently the vice-president of Ingram and former owner of DocData. DocData has been bought by Ingram Micro Commerce & Fulfilment in 2016. As former owner and current vice-president is Geusau very familiar with pricing decisions in the e-fulfilment sector. A limited number of players characterise this market in such conditions and this leads to different pricing strategy decisions. DocData can be considered as the opposite case to DSM. Throughout this research Geusau will be considered as the second expert on pricing strategies, due to his experiences.

The third and final interviewee: Tijs Rotmans, is managing partner of a pricing consultancy firm called: the Pricing Company. Esther Baijens, who currently left the company, founded the pricing company in 2008. The Pricing Company is a Dutch company located in Oestgeest. The core business of the pricing company is their pricing expertise. All pricing companies' employees have on-the-job experience in different industries regarding pricing strategies. The

broad range of industries they serve are: FMCG, media & entertainment, non-profit organizations, telecom, etc. This company has been selected for this research because of its broad range and experience in pricing consultancy. This interview is performed as a final check of this research. Questioning how applicable all this advice is and do pricing consultancy firms experience the same boundaries and difficulties as literature and cases describe?

The second approach on the qualitative research is based on four cases to find implementation issues of a VBP strategy. The first case: an interview with Novartis' President Christi Shaw lead to some interesting ideas concerning the choice and problems of pricing strategies in the medicine market. The second case: the National Health Service (NHS), deals with the implications of moving from a closed and highly governmental regulated market towards an open and free market. The NHS deals in Sussex' (2013) article with the difficulties and the opportunities of moving from a market-based pricing strategy towards a VBP strategy. The third case: case Outotec, written by the Harvard Business School, deals with an industry where they diversify among their competitors to a higher extend. Unfortunately they are unable to implement a VBP strategy. The final case is a VBP case about Trilogy Company. The Kellogg School of Management has written this case and is comparable to the third case. Nonetheless, Trilogy is an IT company in a highly competitive market, with some local and a limited number of multinational competitors.

These cases deal with typical implementation issues and barriers regarding VBP. Next to that, solving these cases, literature and expert interviews help this research to test whether the findings are reliable and useful for organizations. This final part helps in doing a certain exercise or case study in real-life cases, definitely if they are willing to use a VBP strategy for their organization in the future.

PART II:

Findings & Conclusions

The second part deals with finding an answer to the four subquestions. This research starts by defining Value Based Pricing. This definition will be used throughout this thesis. Subsequently, a scale-based approach of VBP will be presented. This scale describes a tendency towards the degree in which an organization can exercise VBP, with respect to other pricing strategies.

The second chapter is both on the external and internal environment of an organization. Ohmae (1983) defines 3 C's, with a focus on customers, competition and company. Regarding the external environment: how can customers and competition influence an organization's pricing strategy and how do they affect the adoption process? This first part of this chapter guides organizations through an analysis solely based on these two aspects. How can organizations deal with competition that shapes high entrance barriers and have a strong power in the market. Porter (1979) already questioned this in his five forces research. The second subpart focuses on the internal part - Ohmae's (1983) third C: company. What barriers would prevent the adoption of a VBP strategy and how do companies deal with this internally?

After defining the internal and external implications, the research digs deeper into the true added value of VBP. On the one hand, the focus is on questioning how the fair value based price can be defined mathematically. On the other hand, value adding elements: tangible & intangible and an economic value analysis will be explained with respect to a VBP strategy.

Finally, the described methodology is tested in a case study based on four companies who are willing to switch to VBP. This part deals with implications and barriers that organizations face during the strategy switch. This chapter gives the reader a broad insight in the different aspects of VBP and the advantages and implications of using such a pricing strategy.

1 What Is Value Based Pricing?

This research starts to reach consensus on one definition of Value Based Pricing. Previous research has not led towards one definition, Farras (2012, p.35) defines VBP as: “value pricing applies to products that have the potential of being differentiated from competitors’ products.” Unfortunately, this definition is only one of the many definitions revealed in research. To reach consensus; the generic pricing strategies will be determined first. Secondly, pricing models will be evaluated in the light of the chosen pricing strategy. Thirdly, a scale based on the extend of VBP will be drawn and finally a VBP definition will be selected.

Pricing – different strategies

Before defining VBP, it is important to find out what the generic pricing strategies are. Pricing basically means giving a product or service a monetary value, which is determined by the production costs plus some margin. Nonetheless, organizations will always question which pricing methods they need to use, in order to gain value and profit maximization. Research has reached a certain consensus about some pricing strategies. Among others; Noble & Gruca (1999), Nagle (2011), Farras (2012) and Hinterhuber (2008) researched three of the most common pricing strategies used worldwide and recognized through their research that organizations most often use: cost-plus pricing, market-based pricing and VBP.

Farras (2012) drew a basic pricing model concerning these three most common strategies. His model pictures the usage of a cost-plus pricing strategy, which has lead towards the commodity side of the market. On this side, volume and ending a little bit higher than break-even are the main criteria. This strategy is mainly caused by heavy competition and when an organization’s only purpose is to fight for higher market shares, at low prices. Farras (2012) gives four ways to generate some profit under these circumstances: price controlling,

unbundling products, linking different prices to relevant indexes and basing incentives on margin.

In contrary to cost-plus pricing, VBP lays its focus on the opposite of Farras' (2012) model. This strategy relies on the product's value proposition. Implicitly on how customers perceive the value of the goods sold by the organization. The essence of VBP is putting the focus on a product or service's true value. If the marketing and sales department are unable to communicate the value, the risk of moving towards a commodity is high and organizations face the risk to use a cost-plus strategy instead of VBP. Kleindorfer (2009) researched the postal service, where being a commodity service is more rule than exception. The conclusion stated: if an organization can emphasize its value, the switching barrier is higher for its customers and the organization can move away from the so-called commodity magnet. Subsequently, the pricing strategy could be changed if the focus is on value. If the organization's offering is a perceived commodity and the most common strategy is cost-plus or market-based, it will become difficult to change. The final VBP definition that will be used throughout this research will be formed at the conclusion of this chapter.

The final pricing strategy – market-based pricing – is a stuck in the middle strategy according to Farras (2012). This strategy does not have focus on the cost price or the value proposition at all. Noble (1999) defines this strategy as competitive pricing. In such a pricing environment the demand is very inelastic and there is not much differentiation among competitive products. Therefore, products will be sold at a competitive price and organizations will always compare their price with the competition (Farras, 2012). In order to act quickly when a price change occurs, some organizations try to predict competitor's price changes. The key criteria

for this strategy is the competition, nonetheless an equal price does not automatically lead to equal competitiveness as production costs can differ.

Pricing – models

Research revealed some models to support a VBP strategy. Among others De Reus (2006) created his 6C framework, whereas Gale (2012) build an analyses tool for the support of VBP and Swire (2006) confirms both models.

De Reus (2006) points out that the principle of the 6C framework reveal the building blocks of a VBP-strategy. The 6 Cs are: comprehend, create, communicate, convince, capture and care. This model is presented as a circle, where every part has a connects to the next C. Therefore, de Reus (2006) implicitly focuses on what customers truly value, both on the internal as external aspect, respecting the customer's wishes at all times. The term comprehends focus on understanding the key values of the customer on segmented levels. Where create puts its emphasis on developing competitive advantage through value offers on the segmented levels. Followed by communicating the value, and more specific the value propositions, which is supported by e.g. advertising. Eventually the organization needs to convince the customers to pay an extra amount for the extra value offered. The circle is back at the start by capturing the value by setting clear objectives and caring for customers to keep them satisfied.

VBP is a part of Gale's (2012) model, as he splits the decision-making model into three parts: data sources, value analysis tools and product strategy decisions. First, this model uses data sources to collect information about the internal and external environment. Secondly, the collected data will be transformed into a comparative performance scorecard, which leads to

the customer value analyses. Finally, this data will guide the organization towards e.g. the repositioning of the product, a VBP strategy and key account management.

In conclusion, Swire (2006) emphasizes again that each model starts by analysing the internal environment (product, portfolio, etc.) and funnelling this into useful data. This data should be analysed and transformed in a pricing strategy and eventually point out the customer value. In this case, Swire (2006) states the same conclusions as de Reus (2006) did with his 6C framework.

Although all models focuses on a slightly different aspect, it should not be surprising that they all start with gathering data, analysing it and transform it into customer values. Finally, communicating and emphasizing the value why customers should pay the higher VBP seems to be essential for success.

Pricing – scales

Expert interviews with The Pricing Company, DSM and DocData proof that there is a veto right regarding VBP. Is the product a commodity or not? In case the product moves towards a commodity, a VBP strategy is – almost – impossible to implement. (Gubbels, 2016) This is in line with the theories proposed by Farras (2012) and the postal industry example of Kleindorfer (2009). Commodities appear to be unsuitable for VBP.

The crucial part of VBP is the differentiation of a product; commodity products and services are per definition not able to differentiate from the competitive offerings and should therefore use a cost-plus strategy. Figure 2 is mainly based on Farras' (2012) pricing model. If the organization moves towards 0, organizations will think that they offer a commodity product.

As long as it is beneath 2, the product is regarded as a product with more or less commodity characteristics. Figure 2 pictures the scale going upwards until infinity.

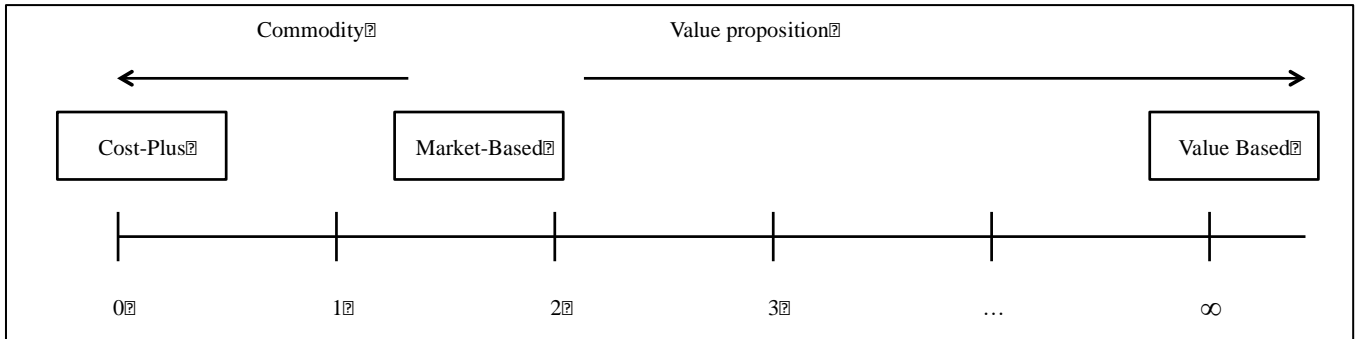


Figure 2: A Scale For A VBP Strategy (Farras, 2012)

This is an exercise every organization should do before they consider a VBP strategy. If those organizations know the suitability of their products or services with respect to VBP and they place their products on this scale, the decision time can be reduced quickly.

Conclusion:

The main issue of this chapter was answering the research question: what is value based pricing? This research uses Farras' (2012, p.35) VBP definition: "value pricing applies to products that have the potential of being differentiated from competitors' products" as the leading VBP definition throughout this thesis. Subsequently, there is a clear distinction between the three generic pricing strategies pictured in figure 2.

While the definition of VBP is determined, different pricing strategies are known by now. The next chapter will focus on internal and external environmental influencing elements regarding VBP, based on Ohmae's (1983) 3C's. These internal and external elements can support the use of a VBP strategy or lead to a failure.

2 What Conditions Influence The Adoption Of A Value Based Pricing Strategy?

This chapter deals with influential conditions and is based on Ohmae's (1983) 3C model and his idea about the three main elements in developing a business strategy. These 3C's: Customer, Competition and Competition will be analysed in the light of VBP on both an external and internal level. While customers and competition are characterised as external factors, these will be researched during the first part of this chapter. The second subchapter deals with the internal part of the pricing strategy: company and partly customers. As Ohmae's model is old-fashioned (though still acceptable) a lot of research has been done to complement or even replace it. E.g. de Reus (2006) complemented this model with a price strategy for every C: cost-based (company), competition-based (competition) and customer-based (customer). The research of de Reus points out that VBP is in the middle of this framework. For reasons of convenience, this research will use Ohmae's original model as a basis for analysis.

2.1 External Conditions

Regardless the strategy an organization chooses, knowing the external environment is crucial for an organization's sustainable strategy. Therefore, whether researchers choose to use Porter's (1979) five forces model, an outside-in view or any other analysing model, it is very important organizations take in mind knowing the external environment and its possible influential factors is crucial. This subchapter reveals how the external conditions for an implementation of a VBP strategy could lead to a success or a failure. Firstly, Ohmae's (1983) 3 C's are used to reveal an organization's external environment (customers and competition) and its threats and opportunities regarding a VBP strategy. Gale (2012) provides a measurement tool to assess the offering. During this chapter, factors like the market, its environment and boundaries will be researched. These factors can be seen as boundaries that

prevent the usage of a VBP strategy in the customer's eyes or these of the competition. Finally, a decision making tool will be introduced to help an organization deciding whether the external environment is viable for a VBP strategy.

One of the essential parts in this research is to deal with the external conditions regarding VBP. Organizations need help determining whether there are (external) barriers, which actually prevent an organization of using VBP. Töytäri (2015) describes three institutional barriers regarding external conditions of VBP. Töytäri (2015) starts dealing with the organization's needs to understand and influence the customer's desired value. Subsequently, he describes that there is a problem in the quantification and communication of the value in the buyer-seller relationship to really influence customer's perceived value. Finally VBP is always facing challenges in capturing the value and the need to convince customers, that the product is truly capturing all the required value.

Customers:

The first C: Customers will be analysed, based on Ohmae's (1983) research and school of thoughts. Zaichkowsky (2010) refers to Kuhn's (2008) revised customer-based brand equity pyramid for B2B. This research solves the question how to develop tangible and intangible assets and questions how to get customers in a certain direction where they do not question why they need to pay for a higher price anymore. Referring to the B2B pyramid's building blocks, there are four questions that organizations should ask themselves: who are you, what are you, what about you and most important; what about you and me? In case of VBP, the top of this pyramid is considered as the most important part. It deals with partnership solutions, sales force relationships and judgements of customers. Of course the lower part of the pyramid needs to be stable and fixed, otherwise the top will fail always. Zaichkowsky (2010)

emphasizes that this stability is essential for the customer to understand why an organization is charging the higher price (VBP). Being a partner that offers partnership solutions is the most important, as the organization can deliver the actual customer's needs with respect to the paid price for the delivered value.

Subsequently, with Zaichkowski's (2010) research, Adamson (2012) describes three strategies, which give organizations an opportunity to win the deal as long as they stay ahead of a customer's request for proposal. In this case, an organization will prove its value anyway. The first strategy Adamson (2012) highlights is the trap of established demand, which basically says an organization should better not focus on its traditional customers. Those customers probably expect the selling organization to lower its prices in the future due to their relationship and volume selling benefits. This research states there should be a focus on customers who actually can change and are willing to do so. Those customers will appreciate the true value of your – fairly – high priced offering. The second strategy focuses on different typologies of customers. Adamson (2012) says that the organization needs to focus on mobilizers, not advocates. This statement is in line with Zaichkowski's (2010) idea of partnerships, where they should be one of the most important criteria in dealing with customers. Target only customers who are willing to evolve and change in their behaviour. This is in line with DocData's approach of a customer relationship. When the customer is able to grow, DocData will grow parallel with them (Geusau, 2016). The third and final strategy focuses on organization's coaching skills regarding their customer's buying process. This strategy supports Zaichkowski's idea of the buyer-seller relationship, as the selling organization should prevent the customer to take the traditional steps in a buying process (recognition, comparing and buying at low cost).

It should be clear by now that Zaichkowski, Adamson and Geusau focus on the development of customers to act in an organization's external environment and help them to evolve in such a way to support the ideas of the selling organization by its pricing strategy.

According to Anderson (2010), organizations need to ask themselves six questions regarding to the customer. He questions the organization's ideas concerning their price strategy in general. The question framework starts by wondering if there appears to be a mismatch between the customer's expectations and the companies (new) offering. If the organization is willing to introduce a new product, it is better to co-develop it with the customer. In this case, the customer truly accepts and values the higher price. Another strategy; if the initial (unbundled) product is not launched with a VBP strategy, the organization should better choose to use a more traditional approach. The organization launches its product on a low price (cost-plus) and adds additional features later. In this case, they use a VBP strategy (bundling and unbundling) in a later phase of the product. The second approach is expected to be the most difficult and least accepted one by customers.

The second and third questions are dealing with the differential value and the market's best next offering (Anderson, 2010). These two questions merely focus on how to communicate the 'why' of the organization's value based price and how to deal with the best comparable, competitive product. The fourth question is not applicable regarding the customer's perspective as it deals with the offering's cost. The final two questions focus on how an organization can motivate the customer to choose for their product and finally how the organization can figure out what a customer perceive as being fairly charged. Anderson (2010) advices organizations to do a small survey among their customers and ask them when they perceive their offering as a bargain (1), beginning to be expensive, the customer still buy it (2) and too expensive, the customer is not buying it (3). Having this information leads to a

range where the organization can decide whether the customers perceive the price as fair or unfair.

In line with Zaichkowski and Adamson, one of the questions organizations should ask themselves is about the next best alternative. What is the best alternative to my own product in the customer's perception? (Gubbels, 2016) An example of a – at that time – newly developed DSM fibre rope proves its value on the following aspects: lighter, longer lifetime (10 years) and floating ability, whereas the next best alternative soaks water (heavy weight), only lives for 1 year and doesn't float at all. These three different aspects do change customer's perception heavily and therefore DSM could charge a VBP on this product while the higher price was fully accepted by its customers.

To create higher acceptance among customers regarding a VBP strategy, organizations should take three main conditions into account: first, they focus on building a relationship with their customer. Secondly, organizations need to be ahead of a customer's request for proposal, so it will be a lot easier for organizations to charge higher (valued) prices due to the value organizations already offer. Thirdly, organizations should try to answer Anderson's (2010) six questions framework and show why their product is better than the next best alternative. This framework will help organizations getting insight in what a customer is expecting from a price based on a VBP strategy. Of course, this outside-in view of the company gains a lot of insight and belief in the acting organization. Nonetheless, it is important to put emphasis on the added value of the organization's value.

In the companies' effort to create a higher acceptance level among customers, Töytäri (2015) defines five methods to influence the customer's perceived value by the quantification of value and the communication of the value. The first aspect is "salient dimensions of value"

(Töytäri, 2015 p.59) and points out that the value is only quantified on the operational dimension. Organizations need to get better insight in customer's value on different organizational levels. As a second aspect, "Access to baseline data" (Töytäri, 2015 p.59) seems to be very difficult for companies to retrieve from their customers. Motivational reasons for these difficulties are (a lack of) trust, rivalry and some other factors that could harm the customer. A method to collect data is to place sensors at the customer's plant to gather insight in its data. If this data is known, the organization can plot a line that hopefully matches the fair value line. The third aspect is about "lack of trust" (Töytäri, 2015 p.59). In this case, the buyer-seller relationship is not very well. Value quantification is in this case almost impossible and organizations should consider dropping these customers. They are in the bottom part of the value map (see figure 3) already and are almost unable to move to another customer segment (Gubbels, 2016). The fourth aspect is focusing on the company itself and will be covered in chapter 3. The fifth aspect: value function deals with the total cost of ownership. Customers can calculate how much impact their profit or savings face by the value offering (Töytäri, 2015) like stated in the unique DSM rope example.

Customers are more willing to accept a VBP when organizations communicate the 'why' of the suddenly price increase. DSM typifies three types of customers where they prefer "value buyers" (Gubbels, 2016) to "price buyers". In the event of turning customers from price to value buyers, organizations need to explain and visualize the change thoroughly. Otherwise a failure or flop will follow quickly.

The Trilogy case (2004) deals with the question how to overcome customer's barriers regarding the adoption of VBP. Trilogy provides two basic approaches, based on the quality of customer's outcomes (quality of product/service; total cost incurred; business value

realized) and the amount of usage (volume, frequency and duration). Trilogy tries to let their customers have a smooth transition in three steps: traditional pricing (1), subscription pricing (2) and gain-sharing prices (3). Both sides profit in the end from the final pricing strategy. At the end of this transition customers perceive: improved value creation due to the gain sharing agreements in challenging IT projects (1). This will assure customers that there is no misalignment. The second benefit is the transfer of risk (2). The financial risk will shift from the customer to the selling organization. It will take away the assumption that Trilogy's products can't deliver its value. And secondary to the financial benefits it will lead to flexible project financing, as the investment is not allocated to the customer's financial balance sheet (3).

To conclude the research about the customer's perspective regarding VBP. The essence of selling a VBP product or service to customers deals with three aspects. It all starts with a good, viable and honest seller-buyer relationship where the organization and customer highly trust each other. Secondly, the organization needs to provide customers insight in the reason behind the price change. I.e. why is their VBP product worth more paying, regarding to the best next alternative? Thirdly, organizations need to be ahead of their customer's wishes. Collecting data and knowing what your customers really want, even before they know it their selves. It will be a lot easier to convince the customer if the organization is proving its value surplus to the customer directly.

Competition:

The second (external) building block of Ohmae's (1983) model is the competition. This second element has been studied already for a lot of years by famous marketing researches like Michael Porter (1979). Porter uses the competition as an influencing factor in two of his

five forces: “threat of substitutes” and “threat of new entrants”. The main questions in this case are: how does competition influence the decision to use a VBP strategy positively or negatively (1) and how can organizations turn this strategy into a competitive advantage (2). At the end, it all comes down to one question: what is the next best alternative of the company’s offering? A similar question towards the question organizations should ask themselves regarding the customer’s perspective. This next best alternative is the major competing element regarding the company’s value-based offering.

Regardless of the exercise the organization needs to perform, it always starts by knowing who the major market players are and what is the next best alternative for the value-based offering? An easy tool to map these customers is the value map (figure 3), which will be explained in part 2 chapter 3. This tool helps the organization placing its own product and all the other products in the specified market regarding the customer’s wishes with respect to price and value. Is the organization’s product near the fair value line, but more to the left bottom corner? Than, the organization needs to shift towards the right upper corner, to stay ahead of the next best alternative (Gubbels, 2016).

If the company is using a VBP strategy for its products, there has to be an element, which supports differentiation from the competition. If not, one of the supposed veto-arguments (i.e. is the product a considered as a commodity?) will decide whether the competition is fierce. This is due to low differentiation, which leads to expected commodities. As long as there is a possibility of differentiation, competition is supposed to have a minor effect on VBP. Regarding to this research, the influence of competition can be defeated in two cases and two cases only: is the organization’s offering a commodity (1), and how does the organization use its value to differentiate? (2)

Gale (2012) provides organizations with a tool to see how good their offerings really are, related to the next best alternatives in the market. This tool called the “comparative performance scorecard” (Gale, 2012 p.43), is used in his research to compare laptop computers. It compares Apple, HP, Sony, Dell and Toshiba on qualitative factors like e.g. HD memory, battery life, weight, screen size, etc. The scorecard starts by deciding the unit of measurement of all the variables. Secondly, the better direction (- or +) is decided. Finally, all different variables are summed and an overall-performance score weighs the organization’s offering to the next best alternatives.

The case of DocData offers this research another dimension regarding the influence of the competition. When the question ‘how does competition influence the decision to use a VBP strategy positively and/or negatively?’ is answered, DocData’s pricing strategy is definitely negatively influenced considering VBP. As DocData operates in an oligopolistic market with severe market conditions (created by these couple e-fulfilment competitors), any decision leading from cost-plus to VBP has consequences to the relationship with the customer and the market. Next to that, one of the forces Porter (1979) describes: “barrier of new entrants”, is so high new competitors are almost unable to enter the market (Geusau, 2016). The conclusion of the inability of DocData to implement a VBP strategy is caused merely by high market entry barriers, low differentiation and the oligopolistic market (the buyer-seller relationship not taken into account). Even when DocData is willing to implement a VBP strategy, the market (read: competition) would force them to remain at the cost-plus level they have today; the consequences of supply and demand in their industry.

2.2 Internal Conditions

This chapter deals with the third C of Ohmae's (1983) strategic C's: the company. The main focus is on the internal implications of using a VBP strategy and more specific how organizations can overcome internal barriers to make a VBP strategy a success. While organizations deal with certain myths and barriers concerning VBP, it is important to find out how companies should overcome these barriers. Subsequently the influence on a VBP strategy of top-management will be examined by theory and case examples, as they can influence this either positively or negatively.

Company:

To analyse Ohmae's (1983) last C: Company, two myths that most often are believed by organizations need to be examined (Hinterhuber, 2004). The first myth is "premium prices and high market shares are incompatible" (Hinterhuber, 2004, p. 767). This myth deals with the misconception of traditional marketing; in the initial phase of a product's life cycle, low prices are necessary to penetrate the market. Hinterhuber's research found evidence that it is possible for organizations to price premium and have a high market share. E.g. cars and pharmaceuticals in the B2C market prove otherwise and looking at the B2B market innovative chemical companies like DSM prove the opposite as well. The second myth "are customers really as price sensitive as commonly believed?" is busted as well. The main issue regarding this myth is due to purchasing managers ranking product attributes as the most important criteria regarding to their buying decision. Subsequently to the physically attributes, service and finally price are ranked in an order from most important to least important. This supports the previous mentioned suggestion in the chapter about external conditions, where organizations should be ahead of their customer's demands.

What can organizations learn from these two myths? The most important lesson is that it is possible to set premium prices as long as the product's attributes are in line with the buyer's perception and future wishes. This research expects a high correlation between the internal and the external environment as competition and customers (external) can partly force the organization (internal) to use an e.g. cost-plus pricing strategy. Nevertheless, the company should always reason outside-in and find out whether the product is suitable for a VBP strategy or not.

Subsequently to Hinterhuber's myths, Töytäri (2015) finds evidence for three institutional barriers, which organizations need to overcome before they can use a VBP strategy. It all starts by understanding, knowing and influencing the desired customer value. (Töytäri, 2015) Organizations need to focus on the buyer-seller relationship to influence the needs and wants of the customer. DocData uses an approach of a gain-sharing agreement. As being a B2B2C organization, DocData highly depends on the turnover of its customers. The higher customer's profit gets, the higher DocData's profit will be (Geusau, 2016). Even though, DocData is not actually using a VBP strategy, they use a related VBP strategy: activity-based pricing. The main point is, when companies face trouble to convince customers to pay for the extra value. Companies can assign a lawyer to put the promised value in an official contract to deliver the promised value and/or activities. On the one hand does this guarantee the organization's sales, where organizations actually sell what they promise and on the other hand when the company is unable to deliver the promised value, companies will be penalized (i.e. a penalty for the selling organization). The second barrier Töytäri (2015) researched is how organizations can influence the customer perceived value due to value quantification and communication. Chapter 3 will dig deeper in answering that question, nevertheless there is evidence that quantifying and visualizing the different value elements will help the

organization to convince its own sales force as it customers. The third and last barrier deals with capturing a share of the value created (Töytäri, 2015). This barrier could be overcome due to PBC's and an honest buyer-seller relationship. The case of Trilogy Corporation proves when the sales force is having trouble convincing the customer, value offerings can be captured in a contract. This case provides evidence that a performance-based contract help to convince both the internal (company) and external side (customer) paying a value based product or service due to the added value is not out of proportion anymore.

As a matter of fact, Töytäri's (2015) barriers proof why companies should really focus on the relationship, value quantification to convince the sales force, convince customers and finally write down the value agreements in e.g. a contract to promise the delivered value.

In light of the promised value, Swire (2006) describes an improvement priority tool. This tool maps the priorities of improvement opportunities with respect to the value. On product level, it helps the company to see which part of the product is catching up. This could be used as a benchmark and finally is really a breakthrough (i.e. value surplus). If salesmen know what part of the product is valued as breakthrough, or at least benchmarked, management will have the tools to convince them more easily.

Up to this point, the company was analysed from an internal point of view. Nonetheless, literature and interviews proved the importance of having an outside-in view. In the first place, organizations need to know what they have to offer and whether the offerings are suitable for a VBP strategy – something chapter 3 will elaborate on thoroughly. Secondly, the external environment needs to accept such a VBP strategy. As readers know by now, oligopolistic markets are not suitable for VBP, so analysing the external environment and changing the organization internally in such a way it is suitable for VBP, needs most often a

full program of top-down change management (Gubbels, 2016). A state of the art example is DSM. DSM uses a top-down approach to launch a VBP strategy. Their program Excellerate offers support to all layers of the organization. Of course, DSM starts measuring whether the product is suitable for a VBP strategy (on the operational level). When they have decided that the product is suitable for VBP, the pricing department will screen it. One of the key success factors in this program is because every layer of the organization has to accept this strategy. Top-management or the board of directors hires the pricing department to calculate a new price for every product based on its value. The sales department simply have to accept it, whether they like it or not. Subsequently, the pricing department helps the sales department to validate the price to their customers with a specified value allocation figure that is created per product (Gubbels, 2016).

Johansson (2012) describes two methods to enhance the internal acceptance of VBP. The first strategy deals with sales force management. Most organizations do not have any incentive scheme and/or guidelines to encourage the sales force to focus solely on value aspects (Johansson, 2012). This lack of rules does not encourage the sales force to adopt a value-based strategy. Looking at best-case scenarios, management writes down guidelines and puts incentives on focussing to sell value based. Subsequently, training and monitoring, either through systems or management support will help in the adoption process. On the other hand, if the sales force is giving discounts to customers, it could be penalised or highly discouraged (Johansson, 2012). To support a top-down approach presented in the DSM case, Johansson (2012) agrees with characterizing this aspect as “senior management support” (p. 6) and consultancy firms like the Pricing Company only do business in the case they are hired by a company’s board or top-management (Rotmans, 2012). A best-case scenario takes place when the senior management supports its sales force with a vision, context and maybe incentives to

really use the VBP approach. On the other hand, worst-case scenario happens when the senior management is mainly interested in either a top-line growth or increasing market share. In this case, management encourage cost-plus pricing to increase market share instead of focussing on the value elements. To conclude the part on management support, literature and interviews have proven that management support is crucial for an internal success and a quicker and better internal adoption of a VBP strategy.

2.3 Conclusion

Based on Ohmae's (1983) three C's, the main question in this chapter deals with answering if the external and/or internal environment do influence an organization's attempt to implement a VBP strategy. At this moment, it is known an external environment can influence the decision from cost-plus to a VBP strategy or vice versa. The case of DocData and the interview with Rotmans (2016) proved oligopolistic markets are (mostly) unsuitable for organizations that are willing to implement a VBP strategy.

While VBP can be influenced by competition on the one hand, the role of the customer cannot be underestimated. Of course, when a price is too high, it will automatically lead to a drop in sales. Nevertheless, when the value can explicitly be highlighted and customers understand the value elements to a high extend, they are willing to pay for the higher price, when they perceive more value. The external part in this chapter pointed out as well in the literature as in real life, there is proof customers are willing to pay for a higher price. This is true as long as it is communicated and when customers experience the value surplus regarding to the higher price. Subsequently, the influence of competitors cannot be underestimated as they can raise

Porter's (1979) hypothetical boundaries that make it highly unattractive to initiate a VBP strategy.

Regarding the last C: company, two myths that companies believe are busted and cannot cause any internal boundaries regarding VBP anymore. Market penetration (low prices, to gain high market shares) is not evident as cars and innovative B2B companies prove the opposite. Next to that customers are not that price sensitive as expected by organizations. At least, B2B buyers rank their preferences on product attributes before they consider the price as most important buying criteria. Next to the myths, there are boundaries that organizations need to overcome. Firstly, the main focus has to be on buyer-seller relationship, by e.g. a gain-sharing agreement. Secondly, value needs to be quantified and communicated both internally as externally. Finally, how can organizations capture the value they promise? E.g. by setting up contractual agreements. When organizations have overcome the different difficulties they face, they need an adoption of VBP from top-management to the lowest layer in the organization; the so-called top-down approach is essential for a success (Rotmans, 2016). Two main approaches proposed by this research to create internal VBP acceptance are: encourage the sales force with incentives when they focus only on value aspects (1) and the so-called senior management support (2).

Table 1 summarizes the variables influencing the adoption of a VBP in an internal (company) and external (customer and competition) environment.

<i>Environment:</i>	<i>Level:</i>	<i>Variable:</i>	<i>Criteria:</i>
External	Customer	Commoditization	If customers perceive the offering as a commodity, it is unlikely VBP is possible, as there is a gap between customers' expectations and the company's value offering.
		(In)Tangible Benefits	Customers can experience more value through adding tangible and/or intangible benefits to the organization's offering. This probably increases the adoption of VBP among customers.
		Value Quantification	Especially for B2B customers, value quantification helps to convince customers more easily and adopt the new pricing strategy, as long as they experience these extra values.
		Gain Sharing	To overcome boundaries caused by a higher price, performance based outcome helps in the adoption process of a VBP strategy. The more a customer is earning, the more they pay and vice versa.
		Request For Proposal	Being ahead of customer's request for proposal helps showing the organization's value surplus.
External	Competition	Oligopoly	In the event of an oligopoly, it is very unlikely that the differentiation characteristics of the organization's offering are high. Commoditization, due to competition's imitations and less differentiation abilities is very likely. The organization will be forced into a cost-plus or market-based pricing strategy.
		Entry Boundaries	One of Porter's (1979) five forces caused by competition. If competition raises such high boundaries that prevent the market of facing new entrants, it is very likely that VBP will not succeed as customers can choose between a limited number of competitors (see: oligopoly).
		Substitutes	Another force, driven by Porter's (1979) school of thoughts. If the threat of substitutes is high, the differentiation between the organization and competition's offering is low, in this case customers are more price than value driven.
Internal	Company	Top-down	A top-down approach is crucial for a successful internal adoption of a VBP strategy. If not, failure is most likely to occur.
		Sales Force	The sales force is one of the most important assets of the organization. Their adoption of VBP is considered as one of the most important aspects. If they adopt this strategy, they are able to sell through VBP.
		Value Quantification	In order to speed up the adoption, quantifying the value elements lead to higher acceptance in the sales force. Next, this exercise helps as well on an internal as external level. The sales force will be able to sell VBP due to this tool and quantification.
		Outside-in	A market driven approach helps the company to understand what value elements the market expects. If the organization is able to match expectations, the adoption; both internal and external, will be much higher.

Table 1: Summary Of Adoption Variables

3 What Is The Added Value Of A Value Based Pricing Strategy?

Knowing what variables increase and speed up the adoption of VBP, this chapter digs deeper into the advantages and added values of a VBP strategy. How can these extra values be used by the organization to charge customers a price based on value? What does it mean? How to map it? Etc. Some questions managers should ask themselves when they consider a VBP strategy and start to compare it with cost-plus or market based pricing strategies. Theory and case studies describe different elements in VBP, which lead to a higher customer's perception of the added value. The main ideas that are treated during this chapter are: what defines value, how to make an economic value analysis, how to allocate value and – finally – are these value elements tangible or intangible?

While VBP tries to emphasize the value for the customer the most, it can be argued that customers do not appreciate or accept a higher price. Why should they pay more for a perceived commodity good when they can buy the same at half the price of the organization's competitor? The difficulties due to the external environment can be hard. Organizations need to start thinking outside-in, discover which aspects of the product or service are perceived beneficial and why customers should pay for a higher price. In this case a couple elements are helpful in analysing those value aspects.

What is value?

Starting to analyse the added value of VBP, one must define value. What does the word value, according to a customer and an organization truly mean? According to Sussex (2013) the process of defining value starts by defining: "what is identified as being 'of value'?" (p.1 Sussex, 2013) In this research, Sussex tries to find the value equilibrium of both supply and demand. Sussex (2013) notes that for the medicine market there are several considerations for

the value identification: societal considerations, public sector considerations, health service considerations and selected social preference weights. Subsequently the health services assess its value in two different parts: gains in quality-adjusted life year and gains in National Health Service (NHS). The NHS can truly measure these values.

In association with Sussex' view, Töytäri (2015) researched this more economically: the supply and demand value. Töytäri (2015) divides value in two parts. The demanded value is the customer-perceived value, which equals the perceived net benefits minus the price, whereas the supplier's value is mostly monetary: price minus cost. Regarding the customer-perceived value, Töytäri (2015) focuses on customer's true net benefits regarding their purchases. This point of view is considered as the traditional economic view on value (mostly monetary) and is the definition, which is the most relevant for a VBP strategy.

Economic value analysis

Now value has been defined, Porter's (1979) five forces model and more specific the bargaining power of buyers is considered as one of the important forces that shape an organization's strategy. This is in line with the outside-in thinking of an organization and is considered as one of the building blocks of the economic value analysis. Hinterhuber (2004) defines the economic value analysis as "the understanding of the sources of economic value of a product to different clusters of customers" (p. 768). Even when this method is used, it will still be difficult to set the price in function of the value of a product. Literature interprets this value analysis in two different ways.

Hinterhuber (2004) finds three ways of defining the customer value; unfortunately a price aspect mainly drives all these definitions. If organizations want to use an alternative pricing strategy like VBP, value needs to be incorporated in the definition.

$$A \text{ product's economic value} = \text{reference value} + \text{differentiation value} \quad (1)$$

The definition of Hinterhuber (p. 769, 2004) uses the received value of customers instead of the desired value. Therefore, this definition meets all the six standards formed in previous research regarding the quantification of economic value.

Of course, analysing value has a broader spectrum than only its economic value. When organizations have to think outside-in, they need to know how to assess value. Johansson (2012) mentions that there is a lack of methods regarding this assessment. It is most common that organizations quantify the value with empirical research (e.g. conjoint analysis, expert interviews or value-in-use assessments). This exercise needs to be done by organizations who want to move from a non-value oriented strategy (e.g. cost-plus) towards a value-oriented strategy (e.g. VBP). In case of a higher perceived value, Anderson (2010) points out why a differential value needs to be transparent. Regarding the customer, who will always compare the organization's price to its best alternative, it is important to prove your higher price is worthy.

Swire (2006) presents the opposite to Hinterhuber and linked this value assessment to a tool: the value map. Figure 3 shows the value map, where four quadrants are put into a matrix. At the Y-axis, the price moves upwards (low to high) and at the X-axis the performance index of the organization's product from worse to better (left to right).

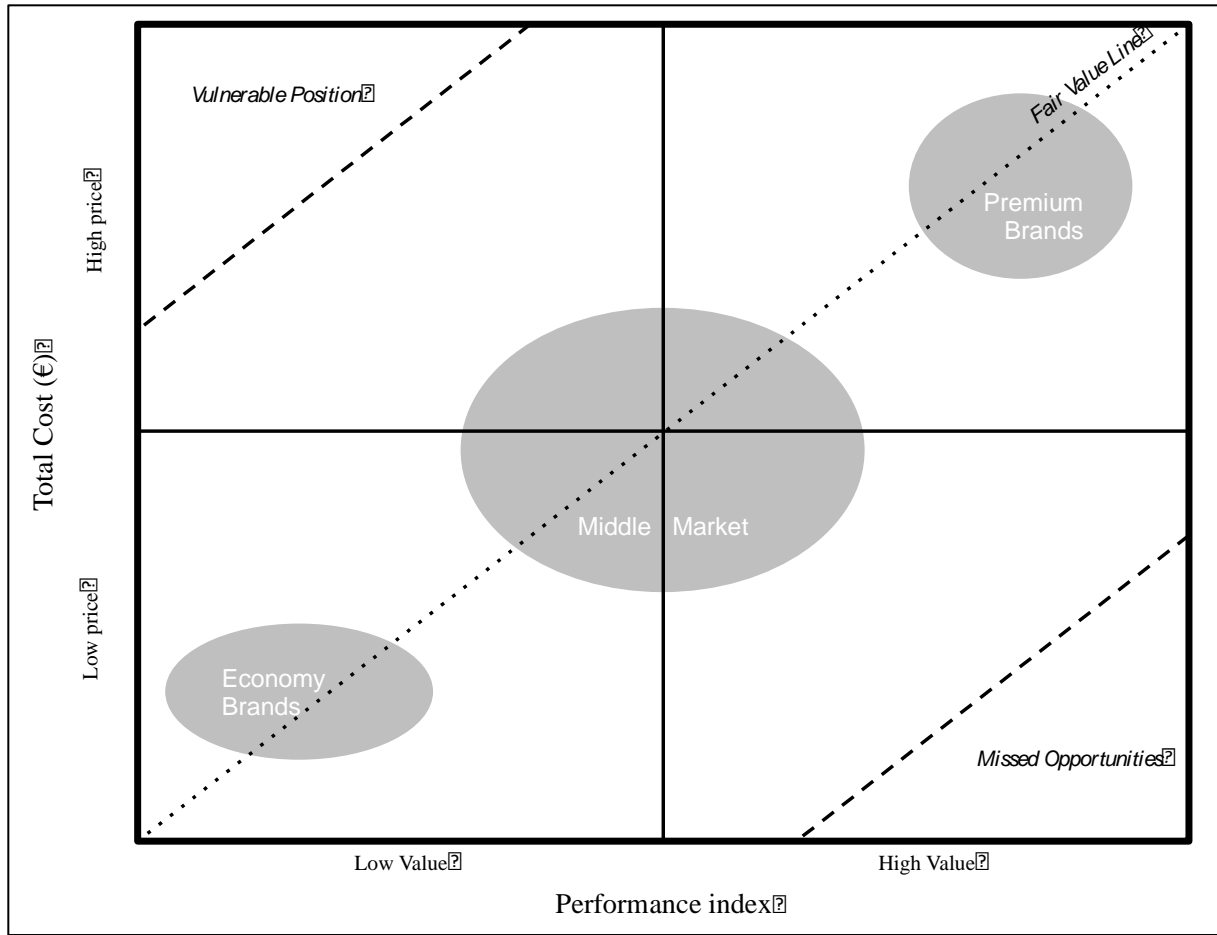


Figure 3: Value Map

Based on: Customer Value Map (Swire, 2006) & Three Tier Value Map - Lancioni (2005)

Using the customer value map gives an organization a solid and market-based ground for charging a price based on its value (Gale, 2012). In this case comparing the different values of the organization's product and the competitors' products (or next best alternative) gain the organization insight in their true value of the product regarding the competition's offerings. Customers can be divided into two groups: value buyers and price buyers. Value buyers are those customers who are in the upper part of the X-axis and price-buyers are those customers who are underneath the X-axis. The ideal combination for an organization that is willing to use a VBP strategy is having enough customers in the value-buyers segment. In the organization's perspective, the place to be is the upper right quadrant near the fair value line (high price, better performance). In that case it is fair to charge a price based on value. It makes sense that

premium brands are in the upper right corner as they deliver high value for a high price, on the fair value line.

One of the supporting tools for the Value Map is customer value accounting. Customer value accounting combines traditional approaches to a system where differences in worth/value among competing products are measured. (Swire, 2006) The customer value accounting method starts by comparing products in terms of cost-in-use, e.g. a higher initial price for a vacuum cleaner without filter bags instead of the traditional ones with a bag having a lower price. Secondly, the products are compared based on performance differences (i.e. longer lifetime, weight, etc.). By consequence, these two steps are indicators for the Value Map's X and Y axe. Thirdly, the first two steps are combined and used to grade the product. Finally, these steps indicate the customer's perceived surplus value by buying the product for a higher value based price.

A second supporting tool for VBP, taking the customer's perceived value into account, is performance-based contracting (PBC). Liinama (p.1, 2016) defines PBC: "at least a portion of a contractor's compensation is tied to the achievement of specific and measurable performance standards and requirements." A part of the PBC is that the organization delivers the promised value and only gets paid when they actually fulfil the requirement. PBC can be used as a value capturing device and helps integrating between organizations. (Liinama, 2016) Unfortunately, there is no evidence that PBC helps successful implementing a VBP strategy, nonetheless it could help gaining customers' confidence. The major advantage of this tool is that organizations are obliged to deliver the promised value. Consider this as a tool to lower the barrier of VBP.

The last tool for VBP is communicating value. The main question in this case is: how is the organization communicating its value based product and why isn't this product a waste of money? Hinterhuber (2008) finds three difficulties that help convincing customers to buy the value based product. At first, it is important to communicate the product's features; organizations need to tell what makes their product more valuable. Secondly, the customer benefits needs to be emphasized, i.e. let customers care about the benefits you offer. In this case, an example like car's noise reduction. Thirdly, communicate benefits in accordance with customer needs. The customer's needs are emphasized – as well implicitly as explicitly. Customers need to remember the message due to the benefits. Although communication is important, Hinterhuber (2008) does not mention anything very new concerning this research. The only thing that he emphasizes is when the organization is familiar with the product's additional value (with respect to the best alternative), do not forget to communicate. When organizations do not communicate this value surplus, all the effort and strategies of VBP will be pointless.

Although there is a big difference between the added value for an organization and its customers, it is considerably relevant that both sides have a lot in common. Firstly, considering bundled and unbundled goods, this sales method is a profitable tool to gain more profit and could be seen as a tangible or intangible benefit. Selling a basic product with a lot of extra specifications or a package deal seems to be beneficial and profitable for an organization as well.

Secondly, the exercise of doing an economic value analysis gains the organization a lot of information and insight in what a customer truly values. Next to that, it helps the organization grading its own product to the competition. Pricing consultancy firms like the Pricing Company do this exercise together with its customers and it is performed in four steps

(Rotmans, 2016). Firstly, deciding which value elements an organization and/or its products has. Secondly, weighing the products against the next best alternative (in scores). Thirdly, they question themselves: what value elements sacrifice the customer to buy their product? Finally, when the total score is calculated, they wonder themselves: where are we now? Even when your score is placed fifth, it is not a problem at all. Subsequently to this calculation they start calculating the economic value. That score most often proves that the organization is placed first with respect to the next best alternatives (Rotmans, 2016). Even PBC could help the organization in gaining a tangible added value, while the need to deliver the promised value on contractual basis.

Value allocation:

One of the assets of VBP is emphasizing value on its key buying attributes. According to Gale (2012) the process of giving value to a product is one of the many processes an organization has to go through. The selling organization has to think outside-in, as they have to picture themselves as buyers of a new product. Gale (2012) defines this as the key purchase criteria, which are also non-price related (i.e. value elements). According to Gale's research there are only four different kinds of non-price buying criteria: the product itself, vendor services, customer-supplier relationship and the supplier's reputation. Suppose all these criteria are positively linked to VBP, an organization is able to ask a higher price based on the value.

Taken all key buying attributes into account, previous figures in this research show that every organization should know whether their product (portfolio) could be differentiated from the next best alternative. DSM does this exercise for every product they are currently holding in their portfolio. Figure 4 describes how the marketing/pricing department calculate the VBP for every product – and sometimes the customer – separately.

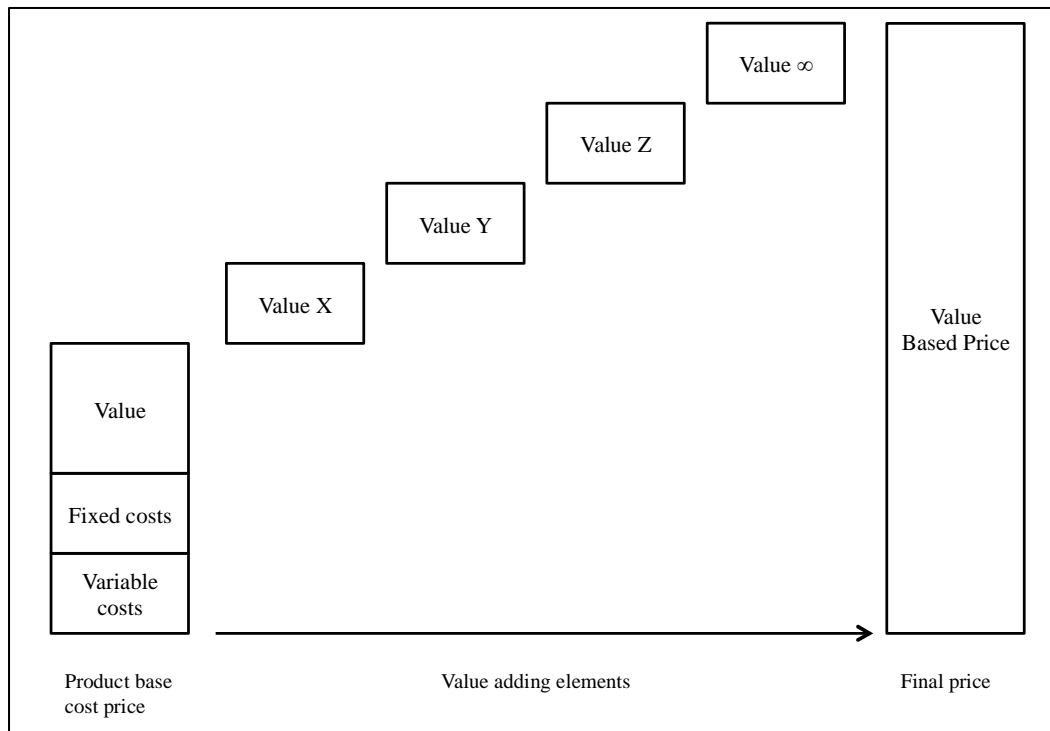


Figure 4: Allocation Of Value (Gubbels, 2016)

Referring to figure 2, the first building block in figure 4 is considered as the pure base cost of the product. Organizations should question themselves: what is the product’s actual cost price? If so, you have already defined your cost-plus price or market-based price. If the company is able to determine and allocate every other value adding element (up to infinity) and add it to the price, they will be able to set a price that actually is value based. E.g. DSM starts with the basic price of the product. Onwards, the application, the customer segment, the customer service level and other determined values finally lead to a value-based price (Gubbels, 2016). This exercise helps the company to determine whether the product is still

viable or whether it should be drained and move out of the company's portfolio. All extra values (figure 4: value block X, Y, Z,...) are determined by tangible and intangible benefits. The next question that pops up: how to determine those extra tangible or intangible value adding blocks and what define those extra value aspects?

Tangible and intangible benefits:

Value can be split up into two experience parts: the value that a buyer experiences directly (tangible) and delivered value that is not always visible for the buyer (intangible). A lot of research has been done regarding tangible and intangible benefits of goods perceived by the customer (B2C) or the buying organizations (B2B). Although, research pointed out that sometimes it is really difficult to measure the perceived benefits by the customers. As a result, Clements (2007) uses a Balanced Score Card to measure the tangible and intangible value of a VBP strategy usage. Clements (2007) points out that these tangible and intangible benefits could be added to the firm's value chain. They consider the added tangible value through e.g. raw materials, labour and capital goods. The intangible aspects are among others intellectual capital and relation exchange. Finally, Clements (2007) comes up with a formula for the buyer transfer price (synonym for a VBP strategy). This formula (2) provides the organization a sum of three intangible benefits, where the customer can profit from several intangible values and the tangible value.

"Buyer transfer price

= tangible resource value + intellectual value + value of a mutually beneficial relationship + the cost of opportunistic behaviour" (p. 24, Clements, 2007) (2)

Bendixen (2004) agrees with Clements (2007) that organizations face difficulties when they try to measure value. Bendixen (2004) creates a long list of tangible and intangible aspects in

the eyes of a buying organization. The main intangible asset of an organization is the company's overall reputation. This facet is even more important than a sales presentation, as buyers consider a vendor-related intangible attribute as the most important aspects in their buying decision.

Complementary to other research, Zaichkowski (2010) dug deeper into customer's perception regarding product performance, distribution, services and the company image. Regarding the tangible and intangible aspects, they used the B2B brand pyramid (Kuhn, 2008) to analyse the organization's identity, meaning, response and the relationship. They found evidence in the literature showing where the role of intangible assets do create the most value in a B2B organization, e.g. competences, attitudes, relationships, brand image, etc. These aspects can generate competitive advantage for distributors, more particular regarding the service supporting aspects (Zaichkowski, 2010). Surprisingly, there seems to be a contradiction of the valuation of buyers and suppliers regarding the relationship. Suppliers emphasize the benefits of the relations, whereas buyers consider organization's sacrifices as the most important part of their relationship.

This research finds – next to the described benefits – two other value adding criteria among the tangible and intangible benefits. The first important aspect is bundling and unbundling different product (categories). Bundling and unbundling is a real tangible aspect of value, as customers experience it directly e.g. a part of a computer or an all-in-one computer. Previous research led towards three (un)bundling strategies. Taking the customer's perceived value into account, a bundled or unbundled good can lead towards new greater possibilities for companies and customers. De Reus (2006) and Roehrig (2012) came up with the following strategies: pure components, mixed bundling and pure bundling. The first strategy 'pure

components' prices each component of the good separately. It can be argued that the total price for a complete set of goods will rise, nonetheless customers like to buy it. If you are willing to accept less, it is only fair customers pay a lower price (de Reus, 2006). The opposite is true as well, because those customers, who want more, expect to pay a higher price for all the extra features in the bundled offering. The second strategy of bundling is called mixed bundling. This strategy is considered as the most profitable one, as it offers customers the option to bundle whenever and whatever they want and leave (unwanted) parts out of the offering. The negative side in the eyes of the organization is the higher transparency. Simply because consumers are able to detect a higher or lower price in the (un)bundled goods. (Roehrig, 2012) The third strategy: pure bundling, happens when customers are able to choose between a bundled good or everything unbundled. This strategy leads to a higher valued good as customers can choose what they want. On the other hand, if customers do not care at all, they will not purchase any of the two different offerings and you could end up losing these customers. (de Reus, 2006) Given an organization's value offering a sales department should decide per customer segment whether to bundle or unbundle. In this case the offering can be considered as custom made instead of a commodity – like described before; differentiation is essential for VBP. In the eyes of the customer bundling or unbundling can be seen as a value adding aspect.

Another value adding criteria – both tangible and intangible – is the supply chain and the management of the supply chain. Clements (2007) states that a supply chain could add value to the pricing process. One of the arguments is that supply chains require organisations to work together and having an intense relationship, where both sides create benefits of adding value to the end customer. This is often key in a B2B setting. What most supply chain leaders try to do is using electronic instruments to turn supply chain members into participants.

Clements (2007) finds a measurement for those relationships among the supply chain. It is very important to see the supply chain as a value chain. Eventually, the selling organization has to become the Supply Chain manager and create an environment where organizations are willing to share information among each other. Despite the theory, managers need to be straightforward will the supply chain can be transformed into a value chain. This is a difficult, long-term value adding exercise, requiring a specified in-depth research on its own. In association with VBP strategies, it is important to take the value role of a supply chain into account. The case of DSM in particular explains that having enough products in stock and creating a safety buffer is a value-adding element. This could be seen as one of the value determinants of figure 4 and will eventually lead to a higher value based price (Gubbels, 2016).

Conclusion:

In the introduction of this chapter subquestions regarding the main research question rose: ‘what is the added value of a VBP strategy?’ To find a reasonable answer to this question, subquestions as: what defines value, how to make an economic value analysis, how to allocate value and are these value elements tangible or intangible? have been answered.

A significant concern was the value in general and the organization’s offerings. Economic theories spoke on the one hand about the buyer’s value and on the other hand of the supplier’s value. Both types of value can be analysed through an economic value analysis. This analysis focuses on the organization’s offering and the value aspects. The economic value analysis helps the organization placing its offering on the value map. How does the offering relate to the organization’s market offerings? Is it on the fair value line and in the upper right corner? Questions organizations need to figure out regarding their value offering. This value

accounting is one of the main internal exercises that organizations need to perform. Next to that, a PBC could help paying customers to pay for the value surplus in the VBP offering. Knowing the value aspects of the organization's offering, organizations could wonder themselves whether their offering consists out of tangible and/or intangible benefits. This is really important regarding the message organizations want to send to out. Do customers need to be aware of the (tangible or intangible) benefits of an organization's offerings?

Having answered all these questions, organizations should be able to retrieve the viability and added value of a VBP strategy by now. Starting to recognize the differential value in the organization's offering and allocating value to all the different (tangible or intangible) value elements.

The next chapter will show the possibilities and difficulties that organizations face during the evaluation and implementation of a VBP strategy in several case examples. For example, on the one hand the case of DSM has already proved the extent in which a customer value map is useful to withdraw customers or increase their willingness to pay for a higher value. On the other hand the case of DocData showed the difficulties of using other pricing strategies than its competitors.

4 Case Study On Value Based Pricing – Implementation Issues

At this point, an analysis of a VBP strategy regarding its benefits, difficulties and conditions lead to the question: how can organizations implement a Value Based Pricing strategy? This is one of the points that prove the value of this research. A case study on four different B2B companies shows the variables they changed to move towards a VBP strategy and difficulties they faced during the change. First, the companies will be introduced. Secondly, an analysis will be performed to find the difficulties and barriers.

Case study:

This case study deals with implementation and compares four different organizations willing to use a VBP strategy for their products. Those companies are: Novartis, the NHS, Outotec and Trilogy corporation. The implementation of a VBP strategy will be tested on different aspects: their current pricing strategy (the strategy before VBP) (1), the adoption criteria: customers, competition and company (2) and finally the added value will be measured on two aspects: economic value analysis and tangible and intangible benefits (3).

The first company: Novartis, is a multinational company which focuses on innovative-patented medicines; generics and eye care devices (Novartis, 2016). Novartis has two business units who focus on the pharmaceutical industry and oncology. Novartis' core business is commercializing innovative, patented primary care and specialty medicines to improve health outcomes of patients (Novartis, 2016).

The second organization: NHS (National Health Service) is a publicly funded UK company and is only one of the four recognized health services in the UK. 2011 was a crucial year for the NHS, as liberalization of companies like the NHS lead to uncertainty. Where their turnover was realized on taxations before 2011, starting from 2011 they need to partly create

their own revenues (NHS, 2016). This company makes an interesting business case, taking the 2011 situation into account. They needed to change from a market-regulated system towards a system where they have to create their own revenue stream.

The third company: Outotec, is a multibillion company working worldwide. Outotec provide solutions in three different focus areas: mining and crushing, minerals processing and metallurgical processing. Outotec's solutions are provided throughout the customer's complete value chain. The company prefers complex projects to highlight the aspect of being the best supplier (Dolan, 2015).

The fourth company: Trilogy Software Inc., is among the world's largest privately owned software companies, with its headquarters stationed in Texas (USA). Trilogy delivers turnkey solutions, just like their competitors (e.g. SAP, Oracle, etc.) in all different segments (Sawhney, 2004). Nowadays, Trilogy focuses especially on the automotive industry and is recognized as an innovative company by Forbes and many other reputable multinational companies. (Trilogy, 2014)

As mentioned before, these four companies have one thing in common; their willingness to move to a VBP strategy for their products. This is considered as main motivation to use these companies for an implementation analysis. Table 2 describes the four companies' current activities and pricing situation, the strategy change they are trying to implement and the switch from their current pricing strategy towards a VBP approach. All the elements in table 2 are based on the three C's described in the previous chapters and the added value of VBP.

Added value criteria: Case:	Current Pricing Situation	Conditions: I. Customers	II. Competition	III. Company	Added value: I. Economic Value Analysis	II. Tangible (T) vs. Intangible (I) benefits
<p>Novartis: Product: hart medicine Segment: B2C / B2B</p>	<p>Novartis wants to switch from a current Market Based pricing situation, towards a situation where they use VBP.</p> <p>Taking figure 2 into account, they are in between scale 2 and 3.</p>	<ul style="list-style-type: none"> - Novartis tries to let expectation meet reality. - Novartis thinks of patient's wallet, regarding Medicare's customer refund. - Focus both on doctors and patients: a customer centric approach. 	<ul style="list-style-type: none"> - Market is characterized by high entry barriers - 6-month window national drug code block for new medicines. - Prices are already negotiated before the actual launch. 	<ul style="list-style-type: none"> - Novartis uses an outcome-based contract for its hart medicine (i.e. tangible, intangible benefits and quality of life). - Patient centric approach: explaining their methods, research, protocols, etc. 		<ul style="list-style-type: none"> - Reduction of 20% in mortality (T&I) - Reduces hospitalization (T&I) - Reduces costs in other parts of healthcare (T&I)
<p>NHS* Product: New Medicines Segment: B2B / B2C</p>	<p>Price Regulation Scheme: an agreement, based on volume, between the UK-Government and the pharmaceutical industry. The aim is to create an environment where both sides' objectives can be achieved.</p> <p>This is market-based pricing. The current situation is at least at scale 2 in figure 2.</p>	<p>“Sharpen incentives for R&D to be directed to areas with the greatest value, aligning industry returns with benefits to patients and the wider economy; promote efficiency, by ensuring that spending on new technologies does not displace other healthcare services of higher value.” (p. 2, Sussex, 2013)</p>	<p>“We note that the maximum ‘value’-related price becomes the reimbursed price only when competition from other medicines or treatments is insufficient to reduce the price below that level.” (p. 8, Sussex, 2013)</p> <p>Entry boundaries are high and only if competition fails; VBP is more or less tolerated by competitors.</p>	<p>Performance is measured in:</p> <ol style="list-style-type: none"> 1. Net benefits 2. Multi-criteria decision analysis 3. Weighted QALY** 4. Deliberative processes <p>“Health gain per dollar” (p. 8, Sussex, 2013)</p>	<p>Customer value map is based on 3 criteria:</p> <ul style="list-style-type: none"> - Monetary Valuations - Stated preference methods - Weights obtained from decision maker 	<ul style="list-style-type: none"> - QALY (T) - Meeting the societal and public considerations (I) - Innovativeness (T) - Health service considerations (T) - Short wait time and location (Just-In-Time) (T) - A lean Supply Chain (I) <p>Note: these benefits can slightly differ among countries</p>

Added value criteria:	Current Pricing Situation	Conditions: I. Customers	II. Competition	III. Company	Added value: I. Economic Value Analysis	II. Tangible vs. intangible benefits
Case:						
Outotec Product: Mining crushing machines Segment: B2B	Outotec uses a pricing strategy only focusing on the margin of goods sold. Considering figure 2, Outotec is currently at a cost-plus level; scale 1.	Due to the proposed six-step process, proposed by Lindahl and Simon-Kucher, Outotec will switch to a solution-selling process (pro-active) instead of waiting for request for proposals (passive). The second change of Outotec is their willingness to be ahead of customer's requests.	Outotec did a survey on competition's pricing strategies. It turns out every competitor under-prices its products A few big multinational players and local small competitors characterize Outotec's market.	Outotec is changing its sales force over time. In case account managers are not able to sell value-based they will be replaced. Outotec switches from an inside-out market view towards an outside-in market approach. Everything is supported top-down by a new CEO.	Outotec uses Vale's six dimensions supplier rating. They score above average on every dimension.	<ul style="list-style-type: none"> - Delivery across the world (T&I) - Broad array of services (T) - Company's reputation (I) - High service level (I) - Mixed bundling strategy (T) - As supply chain leader, Outotec is demanding a certain level of quality (I)
Trilogy Corporation Product: IT Software Segment: B2B	Trilogy tries to move away from its market-based pricing strategy, as they take competitor's prices into account. Nonetheless, they move towards a VBP strategy. Trilogy is at least beyond scale 3 towards VBP, according to figure 2.	<ul style="list-style-type: none"> - Improved value creation due to gain sharing agreements in challenging IT projects. No misalignment anymore. - Transfer of risk: financial risk is with the seller instead of the customer. - Flexible project financing. - Customer focus approach. 	Market exists out of a couple of players: SAP, i2 Technologies, Oracle, and Siebel Systems. These 'big' players raise entry boundaries. The risk of having a more or less equal, less costly best alternative is high in this environment.	Gain-sharing: <ul style="list-style-type: none"> - Improved value creation - Transfer or risk - Flexible project financing For every payment, business outcome metrics are used for Trilogy's results. Trilogy uses a top-down approach to implement VBP in its business.	Trilogy knows they are in the upper IT segment. Trilogy classified all types of product-market combinations with respect to all different pricing strategies.	<ul style="list-style-type: none"> - Risk-sharing (T&I) - End-to-end implementation (T) - Company's reputation (I); a lot of Fortune's 1000 as customers. - Regular service (I) - Mixed bundling strategy (T) - Switched from a horizontal approach to vertical integration (= development of complete company's portfolio) (I) - Business value developer (I)

Table 2: Case Study – Analysis Of Four Companies

* NHS: National Health Services
** QALY: Quality-Adjusted Life Year

The case study helps organizations analysing the suitability of VBP and determine whether the movement of their pricing strategy are successful or will lead to a failure. The first company: Novartis is intended to move from a market based pricing strategy towards VBP. Positive aspects in their change are: their customer centric approach, Novartis creates custom made solutions for its customers by explaining every step in the value creating process. Subsequently, Novartis has products, which could make a difference in the healthcare sector (a large tangible and intangible benefit). The only negative aspect in their case of VBP is whether the market entry boundaries are so high that only a couple players can act in this industry. Next to that, governmental regulations lead to a 6-month window block for new medicines. Customers cannot get a refund from their insurance until the block is relieved. The highest boundary for Novartis is the limited amount of players in its market and due to that, the medicine prices are already negotiated with all the involved players. This can limit the ability of VBP for Novartis' portfolio, although Novartis' president states they are already using a VBP strategy. Another strategy would be advised due to these negative arguments forced by the market. A value map would certainly help turning this advice from a negative one into a positive.

The second case company: NHS, is moving from a price regulation scheme between pharmaceuticals and the UK government towards a strategy in the direction of VBP. Sussex (2013) describes the customer value aspect by ensuring the benefits to patients and the economy. To measure this effect, a lot of tangible aspects like QALY's have been used as performance measurement indicators. Next to these customer's benefits, a lean supply chain helps to limit the waiting time and eventually save lives. Regarding the competition, value aspects become important when competition is failing to meet a minimum of the market's standards. Nonetheless, due to market entry restrictions, the market is still highly regulated by

the government and it allows only a limited number of players. Taken the company's internal value aspects into account, the NHS ensures its value on a couple of aspects: a multi-criteria decision analysis and weighted QALY's. The NHS describes this process as a "health gain per dollar" (p. 8, Sussex, 2013). The value map shows how customers value the available. Taking the results into account, NHS can differentiate from its competitors. Nevertheless, due to market restrictions it could be hard to set a VBP. Subsequently, the NHS needs to know how to apply VBP when competitors fail. Thus, on first hand the NHS gets a negative VBP advice, but a positive advice in the event of competition's failure.

The third case company: Outotec, uses a cost-plus strategy at the moment and merely focuses on volume and margin. Nonetheless, their change management approach leads to some interesting developments. First of all, Outotec's consultancy firm Lindahl and Simon-Kucher advised Outotec to move to a solution-selling process to meet customer's demand before customers even recognized a change their selves. Secondly, Outotec surveyed its competition and found out that the complete market under-prices its product. This gap proves to be a big opportunity for Outotec. Thirdly, the company's internal support is very high. The top-down approach helps to adopt a VBP strategy and the outside-in view leads almost automatically to new chances in the market. Regarding the value map, Outotec is scoring above average in every value dimension. Finally, the tangible benefits of doing business with Outotec are recognized and highly valued by its customers. The same applies for the – limited number of – intangible benefits. VBP seems to be very useful and applicable for Outotec. They meet all the requirements stated by this research (i.e. differentiation, no oligopolistic market, an outside-in view) and a top-down support to change (Rotmans, 2016). If Outotec needed advice, whether they should switch their strategy or not, the advice is positive when switched to a VBP strategy.

The fourth and last case: Trilogy Corporation, uses market-based pricing. Knowing that Trilogy is recognized as one of the top players, improved value creation is around the corner with its customer focused approach. Customers can easily be convinced by gain sharing agreements, transfer of risk and the possibility of flexible project financing (i.e. Trilogy finances the customer's project). Regarding its Competitors, Trilogy and the four other big players in the market raise certain boundaries, which makes it highly difficult for new organizations to enter this specified market segment. Nonetheless, commoditization is never unexpected in IT solutions nowadays, as a – more-or-less – similar next best alternative is always available. Regarding Trilogy itself, they oblige themselves to measure customer's business outcomes constantly as their payments depend on gain-sharing agreements. Next to measurement, the support of a top-down approach of implementing a VBP is present. Regarding the added value of Trilogy's products, there are a lot tangible and intangible benefits that enforce the applicability of a VBP strategy (e.g. value allocation). Due to a lot of unique selling points, VBP should become a success for Trilogy. Convincing customers about the higher price should not give them too much problems as Trilogy takes the complete risk in customer's investment. According to this research, Trilogy also meets all the necessary requirements, which could lead to a success of VBP.

Conclusion:

These four companies proof that implementation comes with boundaries and some implementation issues. Referring to previous chapters and authors such as Töytäri (2015), these so-called barriers can lead to a negative advice for VBP. Nonetheless, an analysis on Ohmae's (1983) three C's, should give organizations a first impression of how suitable and viable a VBP strategy can be. Subsequently, pointing out the added value by an economic value analysis helps the organization knowing how their products relate to the next best

alternative. In order to extent the added value, a tangible/intangible benefit analysis gives the organization an idea on the offerings differential value.

The case study has proven – once again – that oligopolistic markets make a VBP strategy unlikely to occur. Companies like the NHS and Novartis cannot use VBP until certain restrictions disappear. If, and only if, these conditions such as market boundaries for launching new medicines and failure of the competition are gone, they can consider moving towards VBP strategy. Companies like Trilogy and Outotec have the advantage of a high differential value and the support of top-management regarding the usage of VBP.

These cases help describing the problems that organizations face during their pricing strategy movement. Subsequently, there are a lot of organizational and environmental issues that organizations need to overcome when considering a switch to VBP strategy.

5 Discussion And Conclusion

The main issue of this research was to find an answer on the research question: *Why should companies use a Value Based Pricing strategy?* By now, it should be clear that VBP has a lot of possibilities for organizations. Regarding to the organization and its (potential) customers, tangible and intangible benefits lead to a large value increase. Of course, this aspect is considered as the soft component in the organization's offering. Some components are soft and/or hard benefits for the customer as the organization. Zooming in on these economic values, organizations using a VBP strategy know they have a product, which has a high differential value. Subsequently, due to this high differential value to its next best alternative, they can ask a price that is much higher than they would have asked with a cost-plus or even a market-based strategy. A higher price, which is based on its value, will lead to higher profits. Of course, this is easier said than done. Therefore, organizations and further research should focus on three themes before they make a go/no-go decision regarding VBP. The first theme deals with the go/no-go decision based on two veto elements regarding VBP and is considered as the crucial part in making the VBP decision. The second theme puts it emphasis on the external elements with respect to VBP and focuses on influential factors that can influence customer's perception and competition's behaviour. In conclusion, the third theme deals with the internal implications and the difficulties regarding the implementation of VBP. This last theme suggests a direction towards a company's success implementing a VBP strategy.

The first two veto decisions decide whether the organization's product can be used for a VBP strategy. Organizations need to ask themselves the following two questions: do I offer a perceived commodity or a differentiated product? When the answer is: yes; my product can be differentiated, subsequently organizations should ask themselves: does my company act in an oligopolistic market? If the answer is no, research on VBP and its strategy movements will be

very useful. In the case, companies offer commodities; VBP can never be used. Cost-plus and maybe market-based pricing strategies will be used. Subsequently, when the organization is acting in an oligopolistic market, market-based pricing will be a rule driven by the oligopolistic market. Therefore, future research should focus on the following two propositions, to see whether there is a relation or correlation between the different variables that advice the organization to use a VBP strategy or not. These two propositions (P_1 and P_2) are based on the complete research, described in part 2 of this thesis.

P_1 : There is a negative relationship between VBP and oligopolistic markets

P_2 : Commoditization increases the usage of cost-plus pricing

Unsurprisingly, when companies do not offer a perceived commodity and they are most often not in an oligopolistic market, they can move further solving a couple of problem statements. These statements are necessary to reveal how added value influences the external environment and its perception regarding VBP. First thing organizations need to draw is all value elements an offering contains. Next to that, question if these value elements are either tangible or intangible? All of these elements will eventually influence the customer's adoption regarding the organization's pricing strategy. Another question that organization's need to solve is about the buyer-seller relationship. The expectation is that the better the buyer-seller relationship, the more focus there is on value instead of volume and price. The better the relation, the more chance an organization has to be ahead of the request for proposal. Being ahead of this request offers the selling organization a unique position and another value dimension that could be reflected in the price. Of course, competition still has a role in the external environment, even though the organization is not offering a perceived commodity.

Therefore, the higher the amount of competition, the lower the possibility of using a VBP strategy. This is due to low switching barriers that customers under these circumstances have. Nonetheless, future research should focus on the following propositions (P₃, P₄, P₅, P₆ and P₇), to see whether there is a relation between the external elements that influence the adoption of a VBP strategy and to what extent VBP can be used. All these propositions are based on chapter 2.1 to determine the suitability of the external environment (competitors and customers) of an organization's strategy movements regarding VBP.

- P₃: Value elements positively influence customer's adoption of VBP
- P₄: Tangible benefits positively influence customer's adoption of VBP
- P₅: The better a buyer-seller relationship is, the quicker customers adopt a VBP strategy
- P₆: The more organizations act before customer's request for proposal, the more a VBP strategy succeeds
- P₇: The higher rivalry, the less VBP is likely to be used in an industry

Knowing what could influence an organization's pricing decision on an external level, an organization's internal environment is maybe as important as the external environment. Several authors and interviews proof that a top-down support is key in implementing a VBP (P₈). This is thoroughly researched in chapter 2.2. Referring to Rotmans (2016), the Pricing Company do a pricing consult only in the case they are hired by an organization's highest division (i.e. board of directors, business-unit management, etc.). In line with the support of top-management, this top-management should consider that the better they will manage, inform and enhance their sales force in selling value-based, the quicker the adoption process will go (P₉). Naturally, the quicker the adoption takes place, the quicker sales successes will

be realized. Finally, giving the sales force the tools to understand the switch in pricing strategy accelerates the adoption even more. Tools like an economic value analysis proves the value-adding elements both on an internal as external scale. Knowing how this new price has been build through value elements will help to understand and sell the offering (P₁₀)

Although literature and interviews already suggests such an approach, future research should focus on researching propositions that search the correlation between variables like a top-down approach, the adoption and the value quantification. Therefore, this research suggests a number of propositions that are based on the research and the findings in chapter 2.2:

- P₈: Organizations using a top-down approach with respect to VBP will positively influences the internal implementation
- P₉: The better the sales force is informed, the better the sales force is able to sell VBP offerings
- P₁₀: The more a product is quantified by its value elements, the easier it is to sell VBP

So, returning to the main question: *Why should companies use a Value Based Pricing strategy?* VBP gives organizations an advantage of visible and recognized differentiation. Everyone in the organization knows why they are different, better and worth paying a specified, higher valued price. On an external base the market and the organization's customers know what kind of extra benefits the product or service is offering, e.g. a longer lifetime, which reduces possible higher future expenses.

Secondly, returning to the critique that Cressnan (1999) wrote on Noble & Gruca's (1999) pricing article is considered as very relevant. Nowadays, only focussing on cost-plus pricing

strategy is certainly out-dated. Cressnan had a visionary approach that the last ca. 20 years a turn in thinking from cost-plus to VBP would actually happen. Value elements have become more and more important. Next to that, more research has been done on VBP as well in the United States as worldwide. So, this research agrees definitely with Cressnan that Noble & Gruca had a blind spot regarding VBP and missed a pricing strategy completely in their research.

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Appendix

Interview VBP – Case: DSM

Profiel:

Naam: Ivo Gubbels
Bedrijf: OCI Nitrogen
Functie: Sales manager
Vorig: DSM
Functie: Change manager – Value Based Pricing
Werkend op de Marketing afdeling - overkoepelende afdeling voor alle business units (o.a. Medicijnen, voedingssupplementen, plastics,...)

Achtergrond: Technische Bedrijfskunde – Master Business Strategie
Thesis onderwerp: Innovaties met betrekking tot alliantievorming in de telecom en media. Verder ingezoomd op de verschillende typen allianties (Joint ventures, overnames, fusies, etc.) Focus op contentmanagement m.b.t. innovaties (vandaag de dag: apps)

Hoe in aanraking gekomen met VBP?

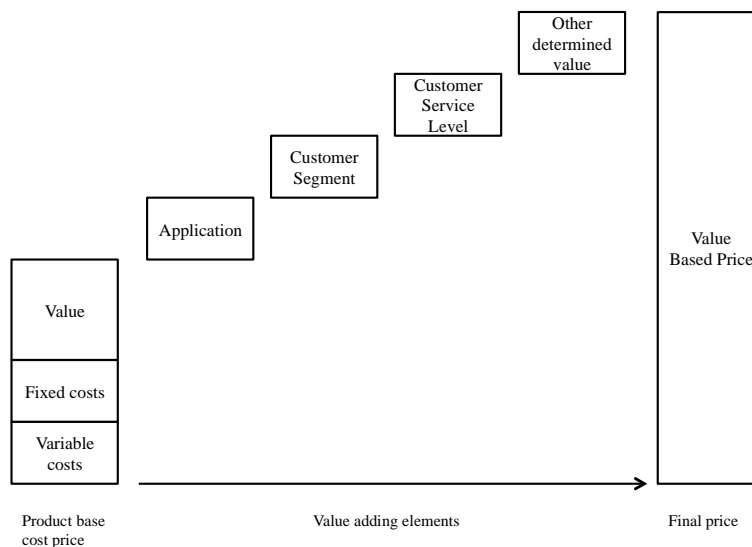
Middels het programma: “Excellerate”, een change management programma om van Cost-plus pricing binnen DSM naar VBP om te schakelen.

Hoe definieert u VBP?

In feite start alles met kostenallocatie. Waar komen de kosten vandaan? Hoe zijn deze ontwikkeld over tijd? Waar is de klant gelegen (locatie)? Dus men start met het ontleden van de huidige prijs (cost-plus) en neemt ieder onderdeel onder de loep, van de tijd die een sales manager kwijt is geweest tot de pure base cost van het product.

Wanneer de kosten gekend zijn, begint de prijsopbouw opnieuw (zie afbeelding)

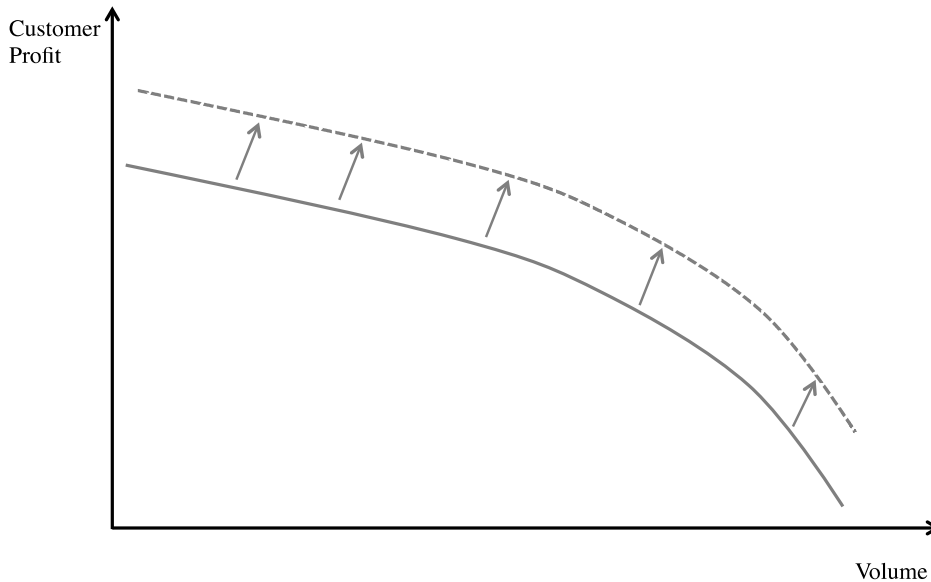
Allocation Value Based Pricing



Iedere bouwsteen kan hierbij beschouwd worden als Value adding elementen. Bij DSM waren die de application, het segment waartoe de klant behoorde, het vereiste service level en andere zaken zoals levertijd, betalingstermijnen, etc.

Uiteindelijk krijg je dan een prijs die vanuit de kern is opgebouwd met alle toegevoegde value elementen tot een Value Based prijs.

Uiteindelijk werd uit data een soort van Fair value line gemaakt. DSM maakte dit heel erg kwantitatief, waarbij elke prijs op klant/productniveau geanalyseerd dient te worden (meer dan 100.000 klanten). Er is een ideale trendlijn:



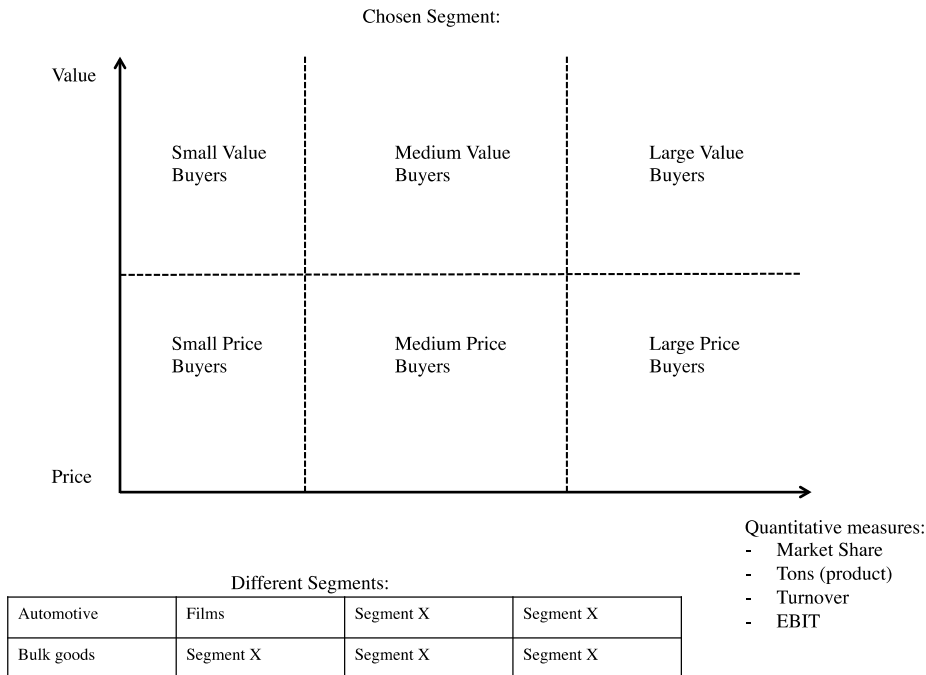
Klant met hoog volume, zal lagere winst opleveren (o.a. door inkoopvoordeel). Hoe hoger de lijn, hoe meer je gaat verdienen. Dit is de netto winst die je kunt bereiken met VBP strategie. (De groei wordt voorgesteld door de pijlen en de stippellijn).

Hoe ziet men VBP t.o.v. de andere 2 prijsstrategieën?

DSM had er een tiental jaar geleden bewust voor gekozen om changemanagement in te zetten. Enerzijds om los te komen van de volatiliteit die de chemische markt heeft, anderzijds om de standaard cost-plus prijs eens door te lichten en te kijken of er wellicht nog meer uit de markt te halen valt. DSM was zich dus bewust van het feit dat hun cost-plus methode wellicht niet levensvatbaar was en dat zij zaken diende te veranderen. Uiteindelijk wist men dat uit een VBP strategie veel meer te halen was dan met de eerst gebruikte cost-plus methode.

Hoe wordt de added value gemeten?

Binnen DSM spelen klantsegmenten een cruciale rol:



Allereerst wordt bepaald tot welk segment een klant behoort. Ten tweede worden de verschillende klantsegmenten verdeeld en iedere klant wordt individueel beoordeeld/geïndexeerd. Op de X-as werden kwantitatieve variabelen geplaatst: market share, tonnen productafname, omzet en EBIT. Deze worden op de Y-as afgezet tegen datgene wat de klant waardeert: prijs of value? Deze kennis is gehaald uit interviews met de klanten.

DSM indexeert haar klanten dus op basis van een aantal factoren. Uiteindelijk worden de groeistrategieën in een accountplan beschreven en eventueel met de klant doorgenomen. Op die wijze weet de klant (en de salesmanager) waarom men een hogere prijs gaat vragen. Ook kan er worden gekozen om bepaalde klanten af te stoten.

Daarnaast worden ook alle producten tegen het licht gehouden. Waar in de BCG matrix staat het product? En nog belangrijker; is het product levensvatbaar voor een VBP strategie. Dus: gaan we het uitmelken, afstoten of verder innoveren?

Dus nadat alle kosten gealloceerd zijn, de klant en het product (klant-product-combinatie) doorgelicht zijn wordt er een VBP strategie opgesteld.

DSM Dyneema heeft hier een uitstekend voorbeeld voor:

Dyneema is voorloper op het gebied van open innovatie. Dyneema heeft het Dyneema vezel ontwikkeld, welke heel sterk is en voor veel toepassingen geschikt:

- "Cutting resistance" : spijkerbroeken en handschoenen waar je niet doorheen kunt snijden met gereedschappen.
- Touwen voor schepen: deze touwen blijven drijven en zijn vele malen lichter dan de traditionele. DSM vergelijkt dit product in dat geval met "the next best alternative". I.p.v. een Dyneema touw een gewoon touw gebruiken. Echter, is bewezen dat het Dyneema touw tot wel 10x langer meegaat, stukken lichter is en blijft drijven. De voordelen kun je in dat geval in euro's uitdrukken:
 - o Minder gewicht, dit levert een benzine voordeel op.
 - o Standaard levensduur touw = 1 jaar, Dyneema touw 10 jaar hoeveel

Uiteindelijk bespaar je t.o.v. het next best alternative op jaarbasis misschien wel 100.000 euro als klant zijnde. Op deze manier kun je dan aantonen wat de extra value voor de klant is en waarom zij die hogere prijs moeten betalen.

Dit benadrukt dan ook de tastbare en niet tastbare voordelen die klanten van DSM ervaren. Ontastbaar is bijvoorbeeld, dat men graag klant van DSM wil zijn om de hoge leverbetrouwbaarheid en de zekerheid die zo'n grote partij te bieden heeft. Een tastbaar voorbeeld zou in dat geval zijn dat men bespaart op het vlak van benzine.

Uit data van meer dan 100.000 klanten haalt DSM uiteindelijk alle data en bepaalt men of ze in de buurt van hun 'fair value line' zitten of dat er bepaalde groeistrategieën toegepast dienen te worden of de relatie beëindigt dient te worden.

DSM past geen PBC (Performance Based Contracting) toe, in plaats daarvan gebruikte DSM accountplannen die klant specifiek erop ingingen wat de klant wil. Dit was zowel intern als extern gebruikt, dit was afhankelijk van het klantsegment. Men ging bijvoorbeeld aantonen op welk servicelevel de klant geholpen wilde worden. Indien men hoge service wilde betaalde zij meer, wil men een lager servicelevel (minder voorraad op stock, kortere betalingstermijn, R&D niet specifiek kijken naar oplossing) dan kan men korting krijgen als klant.

Deze accountplannen kunnen bepaald worden in volume en prijs en dan heeft de salesmanager een duidelijke argumentatie om naar de klant toe te stappen. Onderscheidende elementen benadrukken. Door de prijsopbouw kon je de waarde elementen en latere afspraken met de klant duidelijk maken waarom zijn prijs nu eigenlijk omhoog ging. Dit werd niet vastgelegd in een contract. Er is dus bewust gekozen voor waarde creatie (en de verduidelijking hiervan) i.p.v. kosten verkopen.

De supply chain of Supply Chain Management kan zeker als value element dienen. DSM deed dit voor klanten. Lukte de zekerheid van supply niet voor alle klanten, dan werden allereerst de klanten gekort die enkel op prijs focuste, diegene die betaalde voor de zekerheid (=value) kregen hier dus voorrang.

Een voorbeeld hiervan is OCI als oud onderdeel van DSM; zij maken van gas en lucht ammoniak en caprolactam. Van caprolactam maak je plastic en ga je weer een stap verder naar het automotive segment voor de voltooiing van een bumper. DSM had in eerste instantie de hele value chain in huis. Als je deze niet in je keten hebt ben je veel gevoeliger voor de gasprijzen van de markt. Van oudsher probeerde DSM dit allemaal in huis te hebben. (Backward of forward integrated.) Als je de value chain dus in huis hebt kun je eenvoudiger prijsdifferentiatie op toepassen, hierbij is co-creatie belangrijk bij.

Externe zaken die een VBP strategie beïnvloeden?

Co-creatie is in het geval van DSM samenwerking met klanten. Voornamelijk kijken met wat de klant daadwerkelijk wil? Dit is een USP. Klanten welke in het segment value buyer vielen, daar ging de R&D manager meestal mee naartoe. Hier installeer je een R&D manager bij een grote klant van jou. Een voorbeeld is de iPhone kabel, de achterzijde van iPhone ook. Arnitel, heeft 80 tot 100 types. DSM ging samen met Apple op zoek naar de kleur iPhone wit. Dit moest voldoen aan kwalificaties als hoge temperatuur resistent en bepaalde stevigheid.

Apple heeft eisen, de grondstof wordt door andere partijen gemaakt. DSM gaat samen met de eind spec kijken hoe ze dit kunnen ontwikkelen. Apple zegt tegen kabelproducent: koop Arnitel bij DSM. Dit was de strategie van DSM, aangezien je op deze manier een lock-in krijgt bij Apple, Mitsubishi en de producenten van Airbags, zodat zij eisten dat dit bij DSM

gekocht wordt. Dit duurde zeker 10 jaar om de preferred supplier van bijv. Apple te worden. Dit zijn ook trajecten die veel tijd kosten en die gelden voor de hele keten.

Ander voorbeeld is Dyneema die heeft dit geprobeerd voor een Tender van Amerikaanse leger om met Kevlar te concurreren. Dyneema had dit verloren. Mits Dyneema dit gewonnen had, zouden er vele fabrieken bijgebouwd moeten worden. Dit was in 2008. Wat zij deden was naar de Amerikaanse overheid te gaan en motiveren om i.p.v. kevlar de Dyneema vezel gaan gebruiken. Hier zitten zeker 100 bedrijven tussen, die dan jou product moeten gaan gebruiken. Co-creatie met de O.E.M.; als je hier een lock-in krijgt dan is dat het ultieme doel geslaagd!

Nog een voorbeeld is BASF, het grootste chemie concern in Duitsland. Vergelijkbaar met Chemelot in Duitsland. Zij krijgen trademarks als Goretex (dat is van DuPont – Amerikaans Chemie bedrijf). Als zij dan afdwingen dat kledingproducenten zich Goretex mogen noemen dan heb je het ultieme bereikt. Chemie is erg slecht in branding. Coca-Cola en Apple zijn hier veel beter in. Als jij het krijgt afgedwongen om een bepaald product erin te krijgen dan doe je het belachelijk goed. Dit kost weliswaar miljarden, dus wil je dit of niet? Uiteindelijk heeft DSM 100.000.000 eindgebruikers. DSM wil liever co-creatie met O.E.M. zoals de kabel voor de iPhone.

Concurrenten? Is hun strategie bepalend voor DSM? Dit is afhankelijk van strategie en het product, DSM was destijds uniek om de omzetting van cost-plus naar VBP om te zetten. Dit was destijds toch uniek. VBP is erg lastig, chemie wordt vanuit productie en R&D gestuurd, daarom is het lastig om dit vanuit marketing/sales door de organisatie te voeren.

Overheid? Inmenging van de overheid mag niet! Enkel als je te groot wordt, kartel vorming is verboden. Overheid kan zeggen dat mits je >60% in de markt bent, dan wordt je onder de loep genomen en dan kan je je monopolistische positie misbruiken.

VBP zit hem in de juiste waarde toekennen aan een product. Onderbouw dit met cijfers!

Eindbeoordeling? Wel of juist niet? DSM in principe voor sommige producten er specialties voor maken. Er zijn ook bepaalde producten die in de PLC in de fase van aan het uitmelken zijn, dus maximaal profiteren. Uiteindelijk kun je het product beter laten afvloeien. In principe deden ze dit proces voor alle producten in de portfolio.

Betreffende de niet geschikte producten: niet meer innoveren, als je de fabriek zou moeten aanpassen, welke waarde voegt dit toe? Kostprijsanalyse.

Interne zaken die VBP kunnen beïnvloeden?

Hierbij is product rationalisatie erg belangrijk. Je krijgt mooie discussies, aangezien het gevoel zegt dat het product goed loop, cijfers bewijzen echter vaak het tegendeel. Speelt emotie dan een rol? Emotie speelt grote rol! VBP in grote bedrijven, daarom is er change management. De theorie is niet altijd gelijk aan de praktijk, je bent consultant om dit uit te voeren. Het belangrijkste is dat je er zelf in zult moeten geloven. Change management kun je niet altijd toepassen. Vooral bij het management (van R&D naar sales management doorgegroeid) levert het grote problemen op. Daarom koos DSM voor change management, dit is een filosofie. De mensen die al 30 jaar in het vak zitten die dan erachter komen dat ze al een hele tijd het op de verkeerde manier aanpakken. Echter op basis van die cijfers kon men altijd overtuigd worden. Het management besliste dat iedereen verplicht mee moest werken, de marketing afdeling werd dan ook voor iedere business unit ingehuurd en diende te leveren, gewenst of ongewenst resultaat.

DSM had 2 programma's:

1. Excellerate : pricing van bestaande business
2. Product launch: zij gaan van niks naar eindproduct. (innovatie) Zij pakte alle P's in de marketing-mix en de c's van company, customer en de plaats in de markt van het nieuwe product.

Zijn er nog veto-elementen betreffende VBP?

Specialties zijn uitermate geschikt voor VBP. Kijkend naar commodities, dan kun je je enkel onderscheiden in imago, betalingstermijn en leverbetrouwbaarheid. OCI doet hun producten zelf inkopen als ze niet tijdig kunnen leveren. DSM wilde dit in verleden toepassen op bulkgoederen (niet mogelijk) onderscheidend vermogen is leidend.

Is er dan een veto?

Wanneer men beseft dat er sprake is van een commodity, dan is VBP niet mogelijk. Bijv. Chemie: ammoniak, benzeen, propaan; enkel onderscheiden op veiligheid en levertijd. Klantsegmentatie kiezen voor een 2-tal of 3-tal elementen, meer is er niet. Uiteindelijk erachter komen dat het niks zal opleveren? Te lage sales aantallen, de analyse (lees: voortraject) is het belangrijkste hierin! VBP bij commodities is heel erg lastig. Als je gaat differentiëren dan kun je meer uit de markt halen.

Afhankelijk van de PLC en de BCG matrix kunnen er nog overwegingen gemaakt worden. Dus als het product uiteindelijk neigt naar commodity dan gaat het niet door betreffende VBP.

Interview VBP – Case: DocData

Profiel:

Naam: Michiel Alting van Geusau
Bedrijf: Ingram Micro Commerce & Fulfilment
Functie: Vice President, President DocData
Achtergrond: Master Register Controller Economics

Wat doet DocData precies?

De corebusiness van DocData is e-fullfilment, zij zijn dan ook een servicebedrijf, waarbij orders pikken een van de belangrijkste taken is. Dit is ook wel de B2C logistiek, zij handelen orders af voor internetbedrijven, echter worden ze wel ingehuurd als een B2B bedrijf. Conclusie, DocData is een B2B2C bedrijf.

Hoe ziet men VBP t.o.v. de andere generieke prijsstrategieën?

In de industrie van DocData (DD) zal je VBP niet tegenkomen. Dit voornamelijk dankzij 2 pricing modellen:

1. Grote klanten = cost plus
(bijvoorbeeld bol.com) Dit aangezien men een dergelijk belangrijke service levert dat je zelf de winst of het verlies van de klant voelt. Daarnaast heb je met de logistiek invloed op de complete Supply Chain, wellicht is het daarom slimmer om meer kosten te plaatsen bij DD, waardoor het totaalplaatje (de supply chain) goedkoper wordt.
2. Activity Based Pricing (ABP)

Deze ligt dicht tegen VBP aan. Hierbij probeer je zoveel mogelijk aan te sluiten bij activiteiten die je daadwerkelijk doet. Uiteindelijk gaat het erom welke waarde je kunt toevoegen.

DD berekent klanten prijzen voor: inslag, opslag en per order dat outbound plaatsvindt. Sommige kosten worden door items bepaald (het pikken van het item); sommige door de order (printen van factuur, labels, etc.) en per product is er een verpakking (klein, middel of groot) waardoor de prijs varieert per product.

Terug rekenen naar pure product cost?

De vraag is eerder: hoeveel activiteiten heb je nodig om aan de klantwens te voldoen. En daarop gebaseerd kun je de prijs bepalen. Uiteraard probeer je een zo'n hoog mogelijke prijs te realiseren. Echter heeft de concurrentie ook een bepaalde invloed op jou eigen prijs. Die drukken deze omlaag (marktwerking), de invloed van concurrentie is erg groot. Hoe meer concurrentie, hoe meer de prijs gedrukt zal worden.

Zijn er binnen de markt van DD andere prijsstrategieën mogelijk?

Dat is heel lastig, in het begin was DD uniek, echter nu is de markt zo ontzettend groot geworden en zijn er slechts een aantal grote (bekende) concurrenten. Vanuit andere markten wordt de markt ook betreden en probeert men ook eenzelfde service aan te bieden.

Om VBP toe te passen zal je echt uniek moeten zijn. Als je een service biedt die andere ook bieden is dit een lastig verhaal. Als er wordt gekeken naar commodities, dan zit DD hier nog niet, echter is 'de magneet' wel aan het aantrekken. Dit is inherent aan elke markt, uiteindelijk wordt alles een commodity.

Tastbaar/niet tastbare voordelen?

Interviewer: Denk hierbij aan dat men lid kan zijn van DD-merk.

Uiteindelijk is het voor internetbedrijven cruciaal om de beste kwaliteit te kunnen garanderen. Consumenten die vandaag voor 12 uur 's avonds bestellen, zouden het product per se morgen in huis moeten hebben. Soms zelfs nog vandaag nog.

De kwaliteit van services is nog belangrijker dan dat de laagste kosten hebben. Als internetbedrijven een klant verliezen, dan verliezen ze eigenlijk veel omzet in de toekomst. De klant komt mogelijk niet meer terug indien hij ontevreden en dus weg is. Kwaliteit van levering is het belangrijkste aspect. Indien je dit goed kunt, kan je hogere prijzen vragen t.o.v. concurrenten die eenzelfde niveau van kwaliteit niet kunnen leveren.

Bol.com kiest eerder voor DD dan een kleine nieuwe partij? Voornamelijk omdat deze kleine partij helemaal niet de gewenste kwaliteit kan leveren. Kwaliteit is veel belangrijker dan de laatste cent te verdienen.

Bundelen vs. ontbundelen?

Aangezien je op prijsniveau al differentieert kun je dit altijd toepassen. Echter is er altijd een logische combinatie van de diensten die een klant afneemt. Wat je wel ziet is dat DD eerst altijd het IT systeem verzorgde. Grote klanten overwegen nu of zij dit zelf wellicht in huis moeten nemen.

Is dit geen omgekeerde beweging? Neen, logistiek heeft een strategische waarde voor de klanten, zij hebben er belang bij dat de logistiek nooit faalt. Meer invloed hierop is voor de klant erg belangrijk.

Uitbesteding? Dat is een optie en dat gebeurt ook, maar dat is geen oplossing voor de lange termijn, eerder een intermediair oplossing. Tijdelijk bij de klant alles overnemen. Daarna zijn er 2 opties: of de klant neemt het zelf over, of DD neemt het volledig over. Meest logische is dat de logistieke operatie als 1 geheel wordt gerund, dus een leanere en agile organisatie.

Klantenportefeuille? Deze wisselt bijna niet. In de logistiek is dit erg gecompliceerd. Binnen de internetmarkt kan er niet gewisseld worden zonder dat de klant dit niet merkt. Je kunt niet 2 dagen de website uitzetten, dat is onvoorstelbaar. {enige nuance} Dit kan wel, maar is niet zo heel gemakkelijk. Wisselingen zie je niet heel veel, wat je wel ziet is dat grote klanten zeggen: “we gaan de hele logistieke operatie in huis nemen.” In dat geval wordt dit een jaar lang dubbel gedaan en uiteindelijk neemt DD’s klant het volledig over. Belangrijkste is dat de eindklant (consument) hier helemaal niets van merkt.

Vreemde ontwikkeling?

Nee, voor de DD’s klant is dit een strategische asset. Het komt niet veel voor, echter Zalando heeft dit wel gedaan. Zij hebben dit zelf in huis genomen. Amazon heeft Zalando hier het voorbeeld gegeven. Echter, er is geen route die de juiste route is. Bedrijfscultuur speelt hier een ontzettend belangrijke rol in.

Werkt DD met een Customer Value Map?

Niet bepaald. Wat je probeert is om accountteams dedicated op klanten te zetten. Er wordt samen met klant gekeken hoe de klant kan groeien. Samen groeien met de klant. In het internetsegment zijn alle klanten 10-20% per jaar gegroeid. DD’s groei loopt parallel met die van de markt. Dat is DD’s strategie. Zolang de markt groeit, kun je eenvoudiger meegroeien. In een stabiele markt is een groeistrategie op basis van een value map echter wel mogelijk.

Klanten verplaatsen over de matrix? In de markt van DD niet relevant dankzij de grote groei. Men is verplicht om hoge waarde (kwaliteit) te leven! Dankzij die harde groei maakt de total cost niet zo heel veel uit. Zelfs in cost plus is dit een interessant model. De value map is van belang in een stabielere markt. Airline is een mooi voorbeeld, zij zijn overvol, waardoor iedereen marginaal presteert. Als je markten hebt waarin sommigen excelleren, dan zullen er altijd een aantal ver achter lopen.

De internetmarkt is hier een vb. van (ook de komende vijf jaar) kwaliteit is daarin leidend! DD is iedere dag ermee bezig of zij de beloofde kwaliteit kunnen leveren. Het belangrijkste is, wordt 100% van de pakketten uitgebracht, dus ‘no unhappy consumers’. Dus als bij Bol.com 99,9% wordt gehaald is iedereen tevreden.

Performance Based Contracting?

Ja, hier maakt DD absoluut gebruik van! Iedere dag wordt op- of afgeschaald met personeel om dat te realiseren. Een variabele hierin is bijvoorbeeld regen, wat leidt tot meer bestellingen.

DD is ongeveer 1500 man groot, in het hoogseizoen zijn dit 3000 man. Bol heeft 50.000 m2 DC.

Is het dan pay-what-you get? Neen, er zijn SLA (Service level agreements) afspraken gemaakt. Daar staan boetes op, 100% kan echter nooit, de focus ligt op 99,9% en dit wordt vastgelegd.

Het communicatie aspect?

Prijzen worden voor een jaar vast gelegd. Na afloop van dat jaar kan er automatisch worden geïndexeerd, bijvoorbeeld op basis van het minimumloon of men gaat om de tafel zitten. DD probeert niet te vaak prijsonderhandelingen te doen, dit helpt niet in de relatie met de klant.

SCM is een USP?

Waar DD goed in is, is schaalbaarheid. Niet in long term, maar dagelijks. Internetbestellingen veranderen per dag. Dit hangt af van het weer en dat is iets waar DD heel erg goed in is. Inschattingen maken is daar cruciaal in.

Hoe past de klant in dit prijsverhaal?

Co-creatie met klant is toch wel een belangrijk aspect. Iedereen moet winst maken, ook de klant van DD. In het begin zag je dat internetbedrijven verlies maakten (voor lange tijd). Echter, dankzij externe financiers konden zij dit volhouden door de extreme verwachte groei. Daar is de afgelopen jaren een kentering in gekomen. DD's klanten zullen winst moeten maken.

De hele supply chain moet geoptimaliseerd worden. Als DD werkt voor klanten die geen winst maken, dan is dat geen houdbaar model. Als de klant geen winst maakt (long term) dan zullen zij eindigen in een faillissement. Vraag die wij onszelf stellen is dan: 'Hoe kun je kosten uit de keten halen?' Daar zijn we bezig mee geweest in samenwerking met de klanten. Er zijn vele mogelijkheden om dit te doen. Idee daarbij is dat DD's klant echt winstgevend is. En wanneer de klant winstgevend is, dan DD ook. Dit was eerst andersom, maar dat is nu veranderd.

Concurrentie?

T.o.v. de concurrentie is de focus toch voornamelijk op kosten. Zoals eerder vermeld ligt de focus op cost-plus dankzij het beperkt aantal spelers en de wijze waarop de markt je hiertoe dwingt.

Barrières?

Dat zal dan toch de overheid of klanten van klanten zijn, die tevreden gehouden moeten worden. Het meest ingewikkelde tegenwoordig is dat er voldoende personeel is (dit is toch de onderkant van de markt). In Nederland kan dit niet meer goed worden ingevuld. Gevolg is dat er vele verschillende nationaliteiten worden aangenomen (waaronder Polen) De regelgeving is daar wel streng in. Dat is door de EU vastgelegd.

Een andere barrière is dat men een grote investering moet doen, als kleine partij kun je niet eenvoudig instappen in deze markt. Slechts een handvol partijen die vergelijkbaar zijn met DD. In Nederland zelfs slechts 3, Europa wellicht 10. Niet veel grote partijen die 100.000 pakketten per dag kunnen versturen.

Kartels met de 3 grote, bijv. 50% hogere prijs vragen? Klanten zullen dit nooit accepteren. Dat zou ook niet interessant zijn voor DD, maar deze markt is er niet geschikt voor.

Interne aspect: hoe moet het verkoopapparaat de prijs naar de klant verantwoorden?

ABC is voor de klant erg transparant. DD doet alles op activiteiten baseren. DSM is chemie (speciaal, differentiatie) dat kan DD niet. DD is meer uniek in het kwaliteit / serviceconcept. Prijs wordt per activiteit opgebouwd. Om kwaliteit te garanderen kun je een hogere prijs vragen dan de concurrentie.

Dat heeft onder andere te maken met de dagelijks te leveren kwaliteit. Je moet opbouwen vanuit de activiteiten. Voornamelijk variabele kosten, maar ook een aantal vaste (magazijn, afschrijvingen, overhead, IT-systeem, etc.)

Verkoopt dit makkelijk? In de markt wordt weinig verkocht, en er zijn dan ook weinig wisselingen van klanten. DD's meest succesvolle klanten zijn degene waar DD parallel is meegegroeid over tijd. Er zijn vele klanten die failliet zijn gegaan. Het is dan ook maar geluk hebben dat je de juiste klanten hebt en er mee kunt groeien. Dit zal anders zijn dan de theorie voorschrijft.

Opvatting: opbouw kan wel via blokjes opbouwen, echter dan op activiteitsbasis? (zie interview DSM – figuur Allocation VBP)

Grootste verschil is dat er slechts 1 segment is: het internet. Binnen het internet zijn er wel hardline (Boeken, elektronica), fashion (vele retourzendingen), food (koeling, vers, houdbaarheidsdata), die zitten nog allemaal in het begin, dus hier is samen leren en groeien van belang. Co-creatie is heel belangrijk om samen naar een hoogtepunt toe te werken.

Het werkt enkel als er een partnership is i.p.v. supplier-leverancier gedachte. Dit is niet levensvatbaar op de lange termijn. Als DD niet levert dan is jou klant zijn klant kwijt, dus je bent wel echt een strategisch onderdeel van je klant. DD is cruciaal voor de klant en onderdeel van de hele keten.

Veto elementen t.a.v. VBP?

Sector moet er geschikt voor zijn! Je kunt een dergelijke strategie niet eindeloos door blijven voeren. Zeker in het geval van DD; er zijn geen patenten en het is niet uniek genoeg. Dus partnership en groeien is belangrijker.

VBP kan enkel als je differentieert en geen commodity hebt. Hier kun je nog aan toevoegen dat mits een markt te beperkt is (kleine set spelers, met hoge toetreding barrière). Je groeit en je komt nader tot elkaar. In goed partnership zal de klant jou ook winst laten maken.

DD's business model is partnership. Als DD grote winst maakt wordt dit niet geaccepteerd door de klant, een faire winst is prima. Vrij klein bereik, VBP leidt tot eigen winstmaximalisatie, dat heeft in DD's markt geen zin en zal leiden tot frustratie. Faire winst, maar geen maximalisatie, iets wat DD nooit zal nastreven. Winstmaximalisatie is gemakkelijker naar consumenten toe. Als je zoals DD in de value chain zit, dan is dit lastig.

Betreffende een uniek product kun je dit ook niet eindeloos op toepassen. Op prijs differentiatie zit ergens altijd een grens in B2B. Op de lange termijn zal niemand accepteren dat je VBP blijft doen. Klanten zullen proberen hier onderuit te komen.

Winst klant > winst DD, klant moet er ook harder voor werken. In de keten wordt het winstpercentage steeds kleiner hoe hoger in de keten.

Interview VBP – the Pricing Company

Profiel:

Naam: Tijs Rotmans
Bedrijf: The Pricing Company
Functie: Managing Partner
Nevenfunctie: Gast Lecturer Pricing – TIAS University

Waar de geïnterviewde werkt en wat zijn rol hier is?

The Pricing Company (TPC) doet niets anders dan bedrijven adviseren (= consultancy) over hun prijsstrategie. Dit betreft de ontwikkeling, het plan, de uitvoering en vaak ook de implementatie. Zo nemen zij in opdracht van de klant vaak een Price manager aan die de strategie gaat uitvoeren.

Zij zien pricing dan ook als een competentie die je over tijd ontwikkelt in plaats van een eenmalig iets, waarbij slechts eenmalig de nieuwe prijs wordt bepaald. Cruciaal daarbij is de informatie, omvormen van cost-plus naar ABC en de daarbij behorende prijsdoelstellingen om deze toe te passen in een prijsstructuur die KPI's meet.

Klanten komen vaak naar TPC met de vraag: we doen cost-plus, hebben wel eens gehoord van VBP en dat lijkt ons interessant. TPC gaat dan samen met de klant de methodiek vastleggen, welke normaliter ABC is. Cruciale vraag is: wat wil de klant? Moet er een complete strategiewijziging plaatsvinden of hoeft er nog maar 1 element te worden aangepast vooraleer VBP operationeel is.

Hoe ziet u VBP t.o.v. de andere 2 prijsstrategieën? (cost-plus en market-based)

Kotler schrijft hier bijvoorbeeld slechts 1 à 2 pagina's over, over de P van prijs. Aan alle andere P's wordt zoveel meer aandacht besteed. Neutral pricing lijkt het meest op market-based pricing. Deze prijsstrategie is het minst efficiënt, daar enkel op volume en margin wordt gefocust. Kijk naar bijv. KLM, die market-based pricing doen. Als je dan kijkt naar het prijsmanagement, zal je altijd met de klant, de kosten en de concurrentie rekening moeten houden. TPC gelooft echter maar in 2 strategieën: cost-plus en VBP, daartussen in zit eigenlijk alleen maar waarde elementen welke kunnen leiden tot VBP.

TPC ziet pricing as a strategical competence (artikel Sloan management waarin het 3c model wordt toegelicht).

Hoe wordt de added value gemeten? (tangible & intangible benefits, customer value map en PBC)

De tangible en intangible benefits zijn cruciaal. Dit zijn de elementen die het verschil kunnen maken. Ook voor bedrijven die menen een 'commodity' te hebben. Zij hebben zonder twijfel iets wat hen onderscheidend maakt, al is het maar het merk.

De Customer value map is een tool die TPC vaak gebruikt. Zij gaan dit samen met klanten opstellen. Het boek van Gale die deze value map beschrijft is hier de leidraad voor. Een voorbeeld is een recente klant met energievoorzieningen. De volgende vier stappen worden dan doorlopen:

1. Waarde componenten vastleggen.
2. Eigen product op basis van kwantitatieve scores afwegen t.a.v. concurrenten / beste alternatief.
3. Welke waarde elementen moeten klanten opofferen als ze de focal firms producten kopen?
4. De eindscore berekenen en de cruciale vraag stellen: waar staan we? Als de concurrent op dat moment beter is, is dat geen probleem. Aangezien de economische waarde nog niet gekoppeld is. Dit gebeurt pas hierna. Eén goed voorbeeld zijn Philips lampen, die gaan 10% langer mee en levert dus significante besparingen op. In dat geval kun je je prijs met een factor probleemloos 2 verhogen aangezien de klant kosten bespaart ondanks de hogere prijs.

Zijn er ‘veto’-elementen om af te zien van VBP voor bepaalde producten?

Veto 1: Commodity's:

TPC gelooft niet in het commodity concept, bedrijven denken dat ze dit hebben, maar zijn niet de goedkoopste in de markt. Dan is er dus een mismatch. De defenitie zegt dat een commodity 0% onderscheidend vermogen heeft. Heb je echter 30% marktaandeel, en zeg je dat je een commodity hebt en je duurder bent, waarom kiezen klanten dan toch voor jou? Waarom noem je het een commodity?

Je hebt dus zonder twijfel waarde componenten. Je kunt dit beter high volume, low margin noemen, dat klinkt minder negatief – en doe je jezelf niet tekort. Liozu heeft hier een boek over geschreven: price matrix en commodity's.

Heeft de klant het lastig om te begrijpen waarom ze onderscheidend zijn? KPN bijvoorbeeld. Wat hebben zij te bieden? Bellen / belminuten zijn een commodity. Waarin ben je dan onderscheidend? Toch hebben ze 50% marktaandeel in Nederland. Ofwel is bellen geen commodity? Indien dit het geval is, dan doet KPN alles eromheen goed. Dit is voornamelijk te danken aan de tangible en intangible benefits.

Conclusie: alle bedrijven kunnen VBP toepassen. Wellicht de financiële markt niet. Als je een prijs voor een dollar wil hebben en dan dollars verkoopt voor euro's, dan kun je de prijs niet value based maken. Dit zal altijd market based zijn. Dat zie je dan ook in de valutamarkt, waarbij iedereen dezelfde prijs rekent. Hoge volumes en low margin. De benzine van Shell is ook geen commodity, ondanks de hoge volume markt. Zij vragen een hogere prijs, maar kunnen toch iets extra's bieden.

Veto 2: Oligopolie

Daar is Tjjs het mee eens, als deze marktform er is dan is een marktprijs vragen bijna de enige optie. De enige mogelijke conclusie is dan dat er te weinig onderscheidend vermogen is. Echter zijn er dan BDE en innovatie problemen. Een fundamenteel verschil is dus het gebrek aan onderscheidend vermogen.

Externe zaken die een VBP strategie beïnvloeden (klanten en concurrentie)

Klanten:

Voor de klant zou VBP geen obstakel mogen zijn. In principe zouden zij dit niet eens moeten merken, daar het bedrijf dit gewoon invoert. Kortingen worden dan omgezet in redenen waarom het beter wordt voor de klant. Weliswaar moet je klanten te allen tijde informeren over structuurwijziging, maar nogmaals een klant zou de wijziging niet hoeven te merken.

Iets wat TPC adviseert is performance based selling. Op die manier kan de klant afrekenen op basis van zijn gebruik en resultaten. Een voorbeeld hiervan is Fair Pay van Marco Bertini. De klant krijgt dan invloed op wat hij wil betalen. Geassocieerd aan B2B kunnen bedrijven nieuwe producten aan kenmerken koppelen. Hierbij rekent de klant af binnen een bepaald bereik. Mochten ze veel gebruik maken van het product en weinig afrekenen krijgen ze eenmalig een waarschuwing. Indien volgende maand nogmaals te weinig betalen, zal de relatie beëindigd worden.

Concurrenten:

Een goed voorbeeld van concurrentie m.b.t. VBP zijn advocatenkantoren. Zij gaan niet meer uurtje factuur afrekenen. Nieuwe verdienmodellen zijn op basis van het risico en de uitkomst. Dit leidt voor beide partijen tot de juiste prikkels om zaken tot een goed einde te brengen. Mocht een klant van een advocaat al 10 jaar zaken doen dan kan er ook gekozen worden om standaard 100.000 euro per jaar te betalen. De klant gaat vaker bellen om zaken te checken, op die manier wordt vooraf ellende voorkomen en wordt de dienstverlening zo beter. Dit is een methodiek die in de VS al langer aan het ontwikkelen is en nu langzaam richting Nederland is overgewaaid.

Overheidsrol:

Kritiek op aanbestedingsmarkt, bijvoorbeeld de aanleg van A15, daar is de bouwer failliet gegaan aangezien het volledige risico bij de aannemer is gelegd. Je ziet hier een kentering, waarbij waarde i.p.v. laagste kost belangrijk wordt. Men wil geen nieuwe Fyra catastrofe meer. Overheid gaat heel erg traag naar Value based inkopen i.p.v. laagste kosten. Echter momenteel zoeken zij nog te vaak naar laagste kosten.

Interne zaken die VBP strategie kunnen beïnvloeden?

TPC doet enkel zaken met klanten waarbij het management / directie hun benaderd. Een top-down benadering voor VBP is cruciaal. Als directie niet zegt dit is wat wij willen, dan is het bij voorbaat al kansloos.

De sales afdeling moet ook vaak een omslag maken. TPC voert een scan uit en gaat dan adviseren welke prijzen omhoog of omlaag kunnen om de verkoop te verhogen. Op die manier kun je sales mensen meekrijgen. Het zijn geen projecten van 10 jaar of 1 maand, maar het portfolio wordt beetje bij beetje omgeturnd, of land per land, business unit per business unit, etc.

Een veel voorkomend probleem is de ontbrekende info en structuur. Dit moet achterhaald worden. Ook bij de klant van de klant moet bekend zijn hoe de besluitvorming zal plaatsvinden. De propositie moet uiteindelijk uitgedragen kunnen worden in value drivers.

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Hoenen, Bob

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