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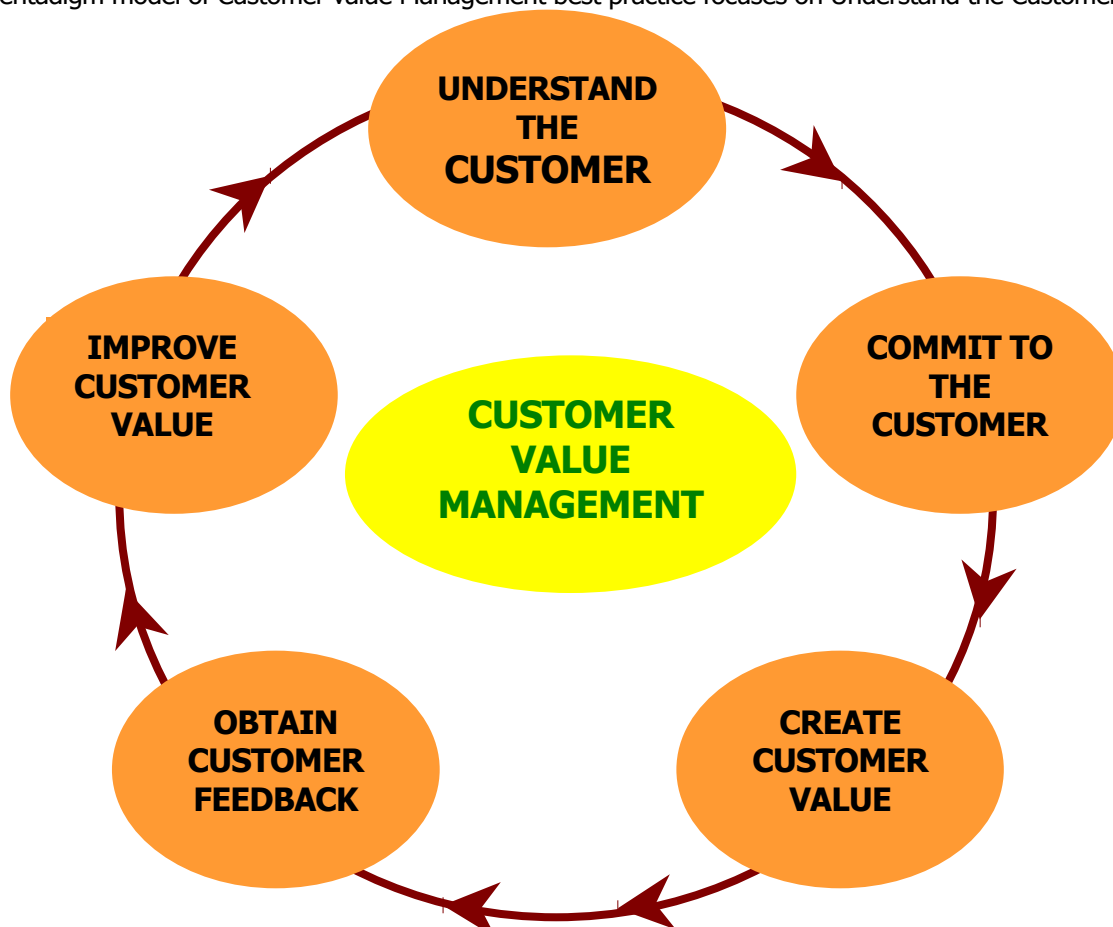
Monday, 25 April 2005

Value Chain Analysis as the Basis for Better Market Planning and Better Pricing

In many B2B and B2B2C markets suppliers are confronted by long and complex value chains, impacted by many and varied source of influence and liable to change, which can impact the demand for the upstream materials. MarketAbility advice: start at the end that drives demand, NOT at the supply end.

One of the bases of good pricing and margin management is better planning. The comments of Dow Chairman, William Stavropoulos at the recent IPC meeting hit the mark: "Clearly ours is a cyclical industry and it is likely to remain so, but that does not mean that we should undervalue our products. We build too many new plants based on optimistic forecasts when the fact is that we are not very good at forecasting."

At MarketAbility, we believe that the key to better forecasting is a better understanding of customers and markets and a quantification of customer values and value drivers. In fact the first step in our Pentadigm model of Customer value Management best practice focuses on Understand the Customer.



Practical Marketing for Value Growth

WE DO while others only talk

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MarketAbility's definition of the customer is: *any member of the value chain, who directly or indirectly purchases or influences the purchase of what the supplier is trying to sell.*

In our experience, one of the best tools for achieving improvements in customer and market understanding is Value Chain Analysis. Value Chain Analysis sets out to understand the decision-making processes that drive the demand for all products and services that contribute to fulfilling the specific needs of customers in a value chain. Better and more accurate planning results from the better understanding of customer and market dynamics derived from this analysis.

Value Chain Analysis must also **quantify the value** to the customer of need fulfilment and thereby quantify the value of products and services contributing to that need fulfilment. Thus, the starting point for any value chain analysis must be to name the value chain according to the customer needs that are being fulfilled – and NOT, as many analysts do, by the product or service which is being supplied. **Herein lies the fundamental mistake in much work that attempts to analyse value chains – the analysis starts at the wrong end and is, therefore, flawed from the outset.**

There is no value chain for caustic soda or paper chemicals or polyethylene or plastic moulding. The product does not define the value chain, but rather the demand driver of the final customer, most often the end-consumer, is the defining factor in a value chain.

So there might be a value chain for entertainment delivered by reading or minimising waste by better preservation of food, just to take a couple of simple examples.

Once the value chain has been properly defined, then the really tough task of analysing the value can begin, starting with the quantification of the value to the customer of the fulfilment of the defined need. In the two cases cited above, clearly the quantification of waste reduction is a much easier item to quantify than the less tangible benefit of entertainment delivered by reading. But even intangible benefits can be quantified.

The consumer may also have additional needs that must be fulfilled. For instance, when purchasing the need fulfilling products or services, there may be segments of customers with different needs and behaviour, for example

Convenience purchasers, who will purchase from the source enabling the fastest and/or easiest acquisition of the products and services

Selective purchasers, who will seek a source where they are presented with a choice or a range of options for fulfilling their need

Price purchasers, who will shop around to find the lowest price for the products and services they are seeking

In most cases customers, whether consumers or B2B purchasers, will go through an evaluation and trade-off process when making their purchasing decision. Value chain analysis must provide an understanding of that process, as this is the KEY TO THE VALUE. There are various methods available for achieving this, some involving market research (e.g. trade-off and conjoint analysis) although it is also possible to achieve a similar level of understanding by engaging with customers in a dialogue. The benefit of the latter approach is that it also serves to develop and build the relationship with the customer. Companies such as BMW through a regular correspondence with their customers and Tesco through their customer loyalty card scheme are excellent proponents of the customer dialogue approach.

The ultimate goal of any value chain analysis is to better understand the dynamics of a market as a basis for better planning and to quantify the demand and value drivers as a basis for better pricing.



The MarketAbility Value Chain Model starts at the final consumer and builds a picture of the complete value chain, identifying the players at each level in the value chain, understanding and quantifying their value drivers, discovering the customer value segments at each level in the value chain.

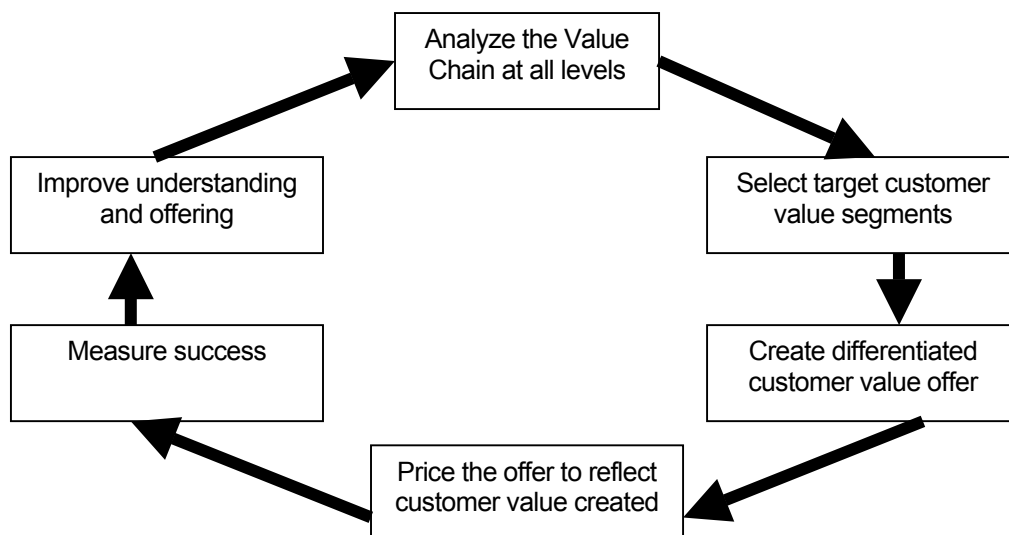
This forms the basis for targeting specific customer value segments at various levels in the value chain with differentiated customer commitments (offerings) correctly priced to reflect the true value experienced by the customer and branded and positioned to ensure a sustainable and profitable business result.

Customers in a certain segment prefer to purchase preferred offerings from preferred suppliers at certain prices.

Suppliers incur certain costs to provide preferred offerings to target customer segments at certain prices.

These equations make up the value flows within the value chain and determine who receives, who creates and who captures the value.

Here is a simplified value chain analysis and pricing model



About the Author

Phil Allen runs the Marketing Excellence Practice, MarketAbility, serving a broad base of clients in chemicals, plastics, energy and other industrial and B2B sectors covering all aspects of improving business profitability through applied practical marketing excellence, customer value management and key account management. He counts more than 30 years of practical experience in marketing and sales.

MarketAbility operates both at global and local levels around the world.

In a recent profile of MarketAbility on EuroNews, Juan Senor, International Business Writer, praised MarketAbility for its unique and practical approach to business value creation.

Phil is the founder of the Customer Value Management Circle of Excellence (www.customer-value.org), a learning and sharing organisation for all involved and/or interested in managing customer value and building customer loyalty.

He is co-author, with J. Nicholas de Bonis and Eric Balinski, of the book "Value-Based Marketing for Bottom-Line Success", to be published by McGraw Hill in December 2002. Visit <http://www.pentadigm.com>

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