

Developing the skills you need

Are you capturing the value of your innovation?

Innovation, value and pricing are inseparable. They are part of a dynamic system to create long-term sustainable value for firms. As such, they have to be treated with equal attention, with sweat equity from top executives and the necessary levels of investments.

Firms invest vast resources in R&D and innovation processes. Most firms, however, fall short of defining crisp value propositions, measuring the differential economic value of their innovation versus their competitors, and capturing the true value through pricing.

There are many root causes, such as the lack of conceptualization of what value means and the understanding of the value management process. Or, innovators' lack of basic value and pricing management skills.

So, how do you get better at it?

Learn more about value management

Value management should take a holistic approach to business strategy and include a strong link between the three critical dimensions of value management: value creation, value assessment and value capture. These three form a dynamic unbreakable chain that can generate greater profit levels for organizations.

Many firms struggle in the area of value creation and, therefore, have a pricing problem, trying to capture something that doesn't exist.

I challenge them to look at the level of differentiation created through their innovation process, such as front-end of innovation, back-end of innovation or technology platform. This creates value.

Once value is created, it's critical to measure and capture it through value-based pricing.

Change internal definitions and metrics

As Peter Drucker said, "What gets measured, gets managed." Most firms define innovation success in terms of innovation rates, number of new products and degree of attractiveness, expected gross margin. These traditional measurements are included in an innovation dashboard.

Introducing new innovation attractiveness metrics related to differentiation value and pricing power provide a different way of screening innovation opportunities.

I often recommend innovation teams measure the differentiation value of their new products or service to gauge how much competitive advantage they can create relative to competition. Me-too products can have great margins but they remain me-too products.

Build pricing skills in innovation teams

This is a tricky subject. Innovators already have to balance technical and marketing skills. Asking them to become expert in pricing and value management activities might be a stretch.

Value-based pricing is a science that needs to be learned, but there is no need for them to become experts. Innovators might have access to internal pricing experts or consultants.

They do have to learn enough of the science and art of value-based pricing to be able to converse with multi-functional teams. They need to be able to link the outcome of customer research with deep discussions on need-based segmentation, while applying the concept of willingness-to-pay.

Value and pricing activities cannot be improvised. Skills need to be formally developed. Innovators with excellent innovation, technical and marketing teams can add another set of skills to their toolbox and make a difference on their innovation ROI. Capturing more value for their innovation is what it is all about. ●



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