Who is in Charge of Customer Value in your Organization? The Emerging Role of Chief Value Officer

This article explores the need for the creation of a Chief Value Officer role for both service and manufacturing firms. Stephan M. Liozu, Ph.D. is Chief Value Officer at Thales Group (www.thalesgroup.com). He is also an Adjunct Professor & Research Fellow at Case Western Reserve University, Weatherhead School of Management. He has authored and edited six books, and can be contacted at sliozu@case.edu. Ronald J. Baker he is the founder of VeraSage Institute and a radio talk-show host on the www.VoiceAmerica.com show: "The Soul of Enterprise: Business in the Knowledge Economy." He is the author of six books, and can be contacted at ron@verasage.com. This paper has been modified from its original version published in Chapter 5 of the *Innovation in Pricing* book published by Routledge in 2012.

The world of business and economics changes fast and is becoming more complex every decade. Firms are faced with the choice to adapt, reinvent, and differentiate themselves or die. Over the past few years, the nature and intensity of these changes in the business landscape have created organizational disruption and a realistic need to redesign organizational structure and leadership approaches. As a result, the nature and structure of the C-suite has also been changing to respond to these exogenous trends. Whereas traditionally C-level positions were focused on operations (Chief Operations Officer), on finance (Chief Financial Officer), on information systems (Chief Information Officer), and on innovation (Chief Innovation Officer), we have witnessed the emergence of a flurry of new C-level titles emanating from new management theory (Chief Learning Officer, Chief Digital Officer), from increased business regulations (Chief Compliance Officer, Chief Ethics Officer, Chief Sustainability Officer, Chief Risk Officer) and from increased focused on markets and customers (Chief Customer Officer, Customer Experience Officer, Chief Growth Officer, Chief Commercial Officer, and Chief Marketing Officer).

Today more and more firms realize that they cannot cut their way to prosperity and that their growth potential has been severely reduced due to the continued recessionary trends. More and more business are looking at their business models and reinventing their value propositions in order to generate customer excitement, boost value-creation programs, and capture value through value-based pricing. This trend towards value begs the question of who is in charge of value-management processes and programs in firms and how they design and implement comprehensive, systematic long-term value initiatives.

For the past decade, value experts have promoted the role of Chief Value Officer in professional firms to lead such programs and initiatives (Baker 2006). In this paper, we explore the need for the creation of a Chief Value Officer role for both service and manufacturing firms. We offer a practical comparison of the customer- and market-related CXO positions and propose two potential approaches for the role of Chief Value Officer (CVO). Our goal is to recommend the creation and adoption of the CVO role and to elevate the value discussion to the C-suite. There has never been a better time to focus on the topic of business and customer value. Who is in charge of value in your organization?

Value at the Organizational Level

"Value" is probably one of the most frequently used words in business. There is confusion between the terms of business value, shareholder value, financial value, and customer value. Value also might mean "cheap" for lots of people. In addition, customer value is difficult to define, to assess, and to fully capture through pricing. Given that most companies create their own definition and conceptualization of customer value, we propose to explore what it might mean and introduce some practical steps to increase your understanding of it.

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Why is it that few suppliers in business markets are able to define and measure value? Ask 100 people what customer value means to them and you will get 100 different definitions. So we must start with a proper definition before we can even begin thinking about quantifying and capturing value. We adopt the definition of customer value proposed by Anderson and Narus in a 1998 Harvard Business Review issue:

"Value is the worth, in monetary terms, of the technical, economic,

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service and social benefits a customer receives in **exchange** *for the price it pays for a market offering, taking into consideration competing suppliers' offerings and prices."*

That notion of value and price exchange is essential to be able to assimilate the concepts of value quantification and capture. Value and benefits are exchanged with utility and price. There are more difficulties than the issue of definition. In a 2008 survey of business executives, 79% attributed this difficulty to a lack of capabilities and skills needed to assess value, apply the appropriate methods, and extract the exact value differential between two products (Hinterhuber 2008). Second to the value-assessment issue, communicating value to the market was associated by 65% of the executives with difficulty in elevating the value message above the advertising noise in the market. A more recent survey conducted in 2014 with 144 value-based pricing experts revealed three top difficulties: 1) selecting the right value drivers to be included in the quantification process, 2) gathering competitive pricing information, 3) and conducting user-need segmentation. Interestingly enough, these experts did not find the quantification process difficult once the context of the customer value exercise was well understood.

Bottom line: there is a need for more research related not only to theory on value (Ulaga 2001) but also to marketing tools for understanding, assessing, and delivering value in business markets (Cressman Jr 2010). Scholars agree that there are six characteristics of value that make value difficult to measure: value is 1) a subjective concept, 2) a trade-off between benefits and sacrifices, 3) multidimensional, 4) defined relative to competitors, 5) segment-specific, and 6) future-oriented (Hinterhuber 2008). These challenges are real in the day-to-day life of pricing and marketing professionals who are attempting to master customer value and pricing (Liozu 2016).

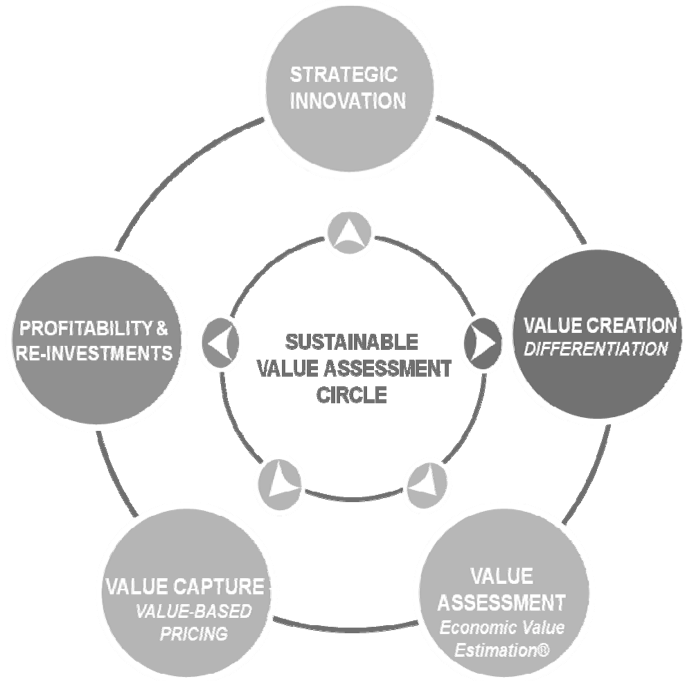
The business world is changing very quickly right now and value propositions are being challenged faster than ever before. Value-based pricing models need to be very dynamic and reflect this changing environment. The enemy of customer value is manual and static processes. That is why the management of change is essential during pricing and value transformations (Liozu 2015).

We conjecture that customer value must be elevated to the organizational level. Managing customer value projects at the product or divisional level might be useful but they do not fit in an overall value-based organizational strategy that is required to create a vision, to free up resources, and to align functional areas to wards customer value.

Firms must put customer value at the centre of their existence (Forbis and Mehta 1981, Slater 1997), make it part of their DNA (Liozu, Boland et al. 2011), and focus on creating sustainable value for all stakeholders including customers, end-users, and trade partners. Figure 1 depicts a framework for the creation and capture of business value. This framework highlights the fact that customer value exists at various stages of the commercial cycle and resides in multiple functions of the firm: innovation, strategy, marketing, pricing, and financial management.

By continuously creating, assessing, and capturing customer value, firms can reap the fruits of their holistic value-management programs and can reinvest significant portions of their incremental profitability into innovation. Simply put, enterprises need to innovate for growth and price for profit. Profit is the price an enterprise invests in to create the future; both innovation and profit depend on systematic and formal customer value management. With this context in mind then, how do you manage customer value holistically? And who should be in charge of customer value?

Figure 1: Sustainable Value-Assessment Circle



Who is in Charge of Customer Value?

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

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

Whenever this question is posed to a group of businesspeople — "Who's in charge of value in your company?" — someone will inevitably shout out, "Everyone!" Really? If everyone owns something, no one does. Adam Smith demonstrated that the *division and specialization of labour* were a central cause of the wealth of nations; they are also the central cause of the success of a business. Not everyone can be good at everything.

In a company, someone needs to own the value and pricing functions, someone who can be held accountable for creating and capturing value across the entire range of customers. When you consider how much executive attention the purchasing function receives in most organizations — with the elevation of a new title, chief purchasing officer (CPO) — shouldn't the pricing function

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receive the same level of executive commitment, attention, and resources as a function designed to control costs?

A report by the London Business School and Ariba, a software company, claims that the new CPOs at 70 percent of European firms report directly to the board of directors, an increase of 20 percent over the prior year (*The Economist*, "A Rise in the C-Level," February 26, 2005, 60). Many Fortune 500 companies have a chief revenue officer, or chief pricing officer; and while these appointments are a step in the right direction toward making pricing a core competency within a company, we posit that there still exists a lacuna in most companies: understanding, measuring, and communicating customer value.

Since price, ultimately, is determined by value—and now that we have explored in detail the subjective theory of value, we have a better understanding of this concept—shouldn't someone within the company be in charge of comprehending, communicating, and capturing value?

All businesses talk about value, and all agree it is essential to create, and constantly add to, but who is in charge of it? Until it is elevated to the executive suite, it is not going to receive the attention, resources, and alignment with overall corporate strategy that it merits. After all, a business exists to create wealth — value — outside of itself, and until someone is held responsible and accountable for understanding the impact on customers, companies will continue to operate below potential in the value-creating function. Let us appoint a CVO in order to take a stand for customer value within the organization.

> According to a McKinsey survey of 30 large U.S. companies, more than a third reported that their boards spent less than 10 percent of their time on marketing- and customer-related issues.

Unlike a biological organism, the true test of a company's success lies outside of its four walls. As Peter Drucker wrote, "All results are external, there is no such thing as a profit centre"; there are only cost, activity, and effort centers. The only profit centre in your company is a customer's check that doesn't bounce.

Yet in many companies, according to McKinsey & Company, marketing is poorly linked to corporate strategy. According to a McKinsey survey of 30 large U.S. companies, more than a third reported that their boards spent less than 10 percent of their time on marketing- and customer-related issues. How can a company continually create value, let alone capture it with more effective pricing strategies, if it does not have someone overseeing this responsibility?

Any company that does not understand the value of its own offerings will, by default, perform a suboptimal job communicating it to its customers. Yet your customers purchase relatively infrequently, while your company sells many more times. Is it not worth gaining a deeper understanding of value so you can leverage that knowledge across your entire customer base, rather than just a few sales? This is precisely why the role of CVO was created. The CVO role grew out an experiment conducted with professional knowledge firms around the world. Initially, a pricing council was established, composed of a group of people who would have ultimate responsibility for pricing across the entire firm.

In any company, pricing exists at the crossroads of almost every other discipline, such as marketing, sales, finance, project management, and even research and development. Yet these various functions sometimes have conflicting objectives and priorities.

Marketing tends to focus on brand awareness and market share, while finance may insist on maintaining certain margins, and sales is interested in making the next sale. Pricing tends to become an afterthought, taking a backseat to these other functions that normally secure executive attention and clout.

CVOs understand that the hardest part of this value management is determining value. After all, cost is relatively easy to determine, since most companies employ cost accountants capable of allocating fixed and variable costs to each widget. Setting price above cost is also not difficult — even the most inept businessperson should be able to accomplish this. In determining value, cost accounting provides little help, since customers purchase value, not a bundle of allocated costs.

Since the CVO position is relatively new, more is being learned every day about this responsibility within firms. It is an unusual position, to say the least. The firms that have implemented it so far have reported favorable results, so much so that the idea warrants further testing. One question that continually arises is, what is the function of the CVO?

The Framework for the Chief Value Officer

CVO versus Other Commercial-Oriented C-Level Positions

Our intention in this paper is not to propose a detailed and final description of various C-level positions. We intend to launch a conversation about the role of the CVO compared with other C-level positions that are related to market and customer activities. The Chief Marketing Officer (CMO) and Chief Commercial Officer (CCO) positions have been more widely accepted over the past decade. While the role of CCO is relatively new, about 200 CCOs have been appointed worldwide since the role emerged (Abele and Stevenson 2009). Similarly, the number and presence of CVOs is accelerating around the world. In 2006, Spencer Stuart identified more than 30 CMOs in FTSE top 50 companies. In the USA, among Fortune 100 firms, 23 had a CMO as the head of marketing in 2008 (Grewal and Wang 2009).

The acceptance of the roles of Chief Pricing Officer (CPO) and Chief Value Officer (CVO) has a long way to go. First of all, in most companies, the pricing and value-management function receives limited attention. Data from the Professional Pricing Society, the world's largest organization dedicated to pricing, reveal that fewer than 5% of Fortune 500 companies have a full-time function exclusively dedicated to pricing (Mitchell 2011). After an in-depth

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review in Google, only two or three firms have a clearly identified CVO function.

Reviews of the published roles of CVO, CPO, CMO, and CCO allowed us to prepare the summary data shown in Table 1.

Table 1: Critical Function of Commercially Related C-Level Positions

Chief Marketing Officer	Chief Pricing Officer
Product Management	Firm Pricing Orientation
Market Management	Pricing Strategies & Tactics
Strategic Marketing Excellence	Pricing Realization Excellence
Strategic Pricing Management	Value Management Process
Marketing Communications	Systems, Tools & Infrastructure
Chief Commercial Officer	**Chief Value Officer**
Commercial Strategies & Tactics	Value Management Process
Commercial Excellence	Strategic Pricing Management
Product Management	Value Communication Management
Market & Customer Insights	Market & Customer Insights
Customer Experience Management	Value Culture & Mindset

We propose that all four roles are different but present some overlapping characteristics or critical functions. While job descriptions might differ from firm to firm, we find that the CVO function best captures the systematic and holistic creation, assessment, and capture of value. This level of dedication and specialization is required to put customer value at the heart of strategy or at least at the same level as cost and competition.

The key question that is necessary to answer is the following: do you want to reach pricing excellence or do you to have reach customer value excellence? Some companies might include customer value into their marketing function and leave pricing with the Chief Pricing Office. Others might prefer to have value and pricing into a CVO role. What is better? We have no scientific data demonstrating that one approach is better than the other. What matters is the need for skill specialization on value and/or pricing.

Chief Value Officer Job Description

CVOs are focused on systematically creating, assessing, and capturing value across all processes and functions of the firm. SAP's CVO supports our view: "Value is created in three stages — value discovery, value realization, and value optimization. We believe partners can look at these three areas and offer services around them, such as change and program management to help customers unleash the potential of what is being offered." CVOs make sure that all programs, actions, initiatives, new products, services, and investments create and capture customer value. They challenge the decision-making process to bring forward customer needs, value propositions, and value models as well as how value is captured in the process. CVOs live and breathe value management, as the eyes, ears, and voices within the organization advocating value creation for the customer. They focus on culture, mindset, and languages of value.

Figure 2: Two Options for CVO Role Design

There are two options for designing the role of the CVO, as shown in Figure 2. A first way is to establish a Project Management Office (PMO) dedicated to the management of value and driving all strategies, processes, and organizational dimensions (culture and mindset) associated with value management. We call this approach a process-focused CVO.

The second approach proposes to design this role by grouping all functions associated with value management (marketing, innovation, pricing, value, selling) and to fold them under one function reporting to the CEO. This approach resembles a more traditional one, closer to the role of Chief Marketing Officer with innovation and strategic responsibilities. We call this approach a functionally focused CVO with direct responsibility and accountability. The selection of one versus the other approach depends on the firm's process orientation and its capacity to change at the organizational level. Our opinion is that both approaches offer great potential to put value management where it belongs, that is, in the C-Suite. So there is not right or wrong. Different organization designs, market dynamics, and company cultures will dictate what CVO configuration to use: process, functional, or hybrid.

In this paper, we also propose to go further and to offer readers a potential job description for a process-focused CVO. For this we build on the work of Deloitte (Dalton and Wortman 2004) and add additional dimensions to the position, as shown in Figure 3.

While the initial job description was well designed and captured more important elements of the role, we added the dimensions of learning and knowledge management as well as added required skills in change management. Putting value at the centre of the firm's DNA requires an organizational transformation (Liozu, Boland et al. 2011). The CVO will be required to drive this difficult transformation with passion. He or she will act as a champion of value in the firm and will reinforce collective efficacy by expressing positive evaluations (Tasa, Taggar et al. 2007), showing confidence in people to perform effectively and to meet value challenges (Nadler and Tushman 1990), awakening spirits to rally the troops (Hacker and Roberts 2003), and energizing members across the organization (Nadler and Tushman 1990, Thompson 2009:100). Finally, the CVO is also the protector of the value culture. He or she will nurture and grow that culture to be able to create irreversible change in the mindset of people in the organization. Culture matters. Mindset does also.

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Conclusions

In this paper we have attempted to bring forth arguments for why firms should comprehensively and systematically manage customer value at the organizational level. We have also highlighted the need to have customer value managed centrally through the creation of the position of Chief Value Officer. We make several strong points related to marketing, value, and pricing management.

First, we propose a clear definition of customer value and also support the need to elevate the value discussion to the C-suite. Many CEOs believe that it is their role to manage value day in and day out. We take a different position and argue that CEOs cannot improvise and focus fully on comprehensive value management. They need a full-time pool of resources that will make value leadership a priority project with the intent to create, assess, and capture value. CEOs need to put business at the centre of the firm's existence and delegate that mission to value experts. CMOs, CPOs, and CCOs may be able to assist in the management of value but they will also suffer from the same issues of multitasking, attention misallocation, and lack of dedicated expertise that CEOs contend with.

Second, we propose a couple of different design options for CVOs as well as a potential job description based on Deloitte's 2004 work (Dalton and Wortman 2004:31). We hope that further research will be conducted on the role and function of the CVO and that practitioners will draw from our work to advance the cause of value management in the C-suite.

Third, we clearly establish a separation between pricing management and value management in the firm. While they are not separated in the overall process, they must be managed differently and cannot be integrated with each another. Pricing strategies and tactics are used to capture value in the marketplace with customers. Prior to being captured, however, value must be created and assessed. Reciprocally, value cannot be captured without sound pricing strategies. Therefore, we posit that pricing belongs in the value-management process led by a CVO, and not simply a CPO reporting to the CEO or working in the C-suite.

If you are competing against a company with a CVO — either for customers or talent — you may be at a severe competitive disadvantage. The Roman God Janus had two sets of eyes, one set to see what lay behind and the other to see what lay ahead. A CVO is an outward-looking position, with duties carried out in a world of risk, uncertainty, innovation, and faith in the future, where value is solely determined by the customers your company is privileged to serve. If the only set of eyes you possess look behind you — at historical costs and efforts — you are destined for a perilous future.

So, who is in charge of value in your company?

Figure 3: Proposed Process-Oriented CVO Job Description

Job Title:
Chief Value Officer (CVO)
Reports to:
CEO and Board of Directors
Objective of the Role:
To lead the development and execution of an integrated performance management process focused on the creation and capturing of long term business value.
Scope:
This role encompasses all elements of performance management, including development and update of strategic plans, management of the project portfolio, determination and approval of capital investments and new product introductions, establishment of performance measures and targets, and the evaluation and reward of performance. Organizational scope includes an overall corporate perspective, with responsibility for providing direction to all business units, aligning their strategies within the context of enterprise value, and optimizing the enterprise portfolio
Main Responsibilities:
- Lead the continuous assessment of the business environment, customer trends and value models, and assessment of possible scenarios, as well as the changes in direction implied by potential changes.
- Review and approval of all plans, projects, investments, measurements, targets, and performance assessments for completeness and consistency with overall corporate value-creation and value-capturing goals and objectives.
- Establishment, review, and maintenance of a consistent, integrated performance management process across all parts of the organization – including timelines, outputs, and systems to be used.
- Review and approval of all compensation and reward programs for consistency and alignment with corporate goals.
- Develop training and intellectual capital management programs to promote the value management.

Experience & Skills Required
A demonstrated knowledge of marketing, value assessment, pricing and finance.
Excellent business acumen including a passion for delivering superior outcome.
The ability to lead and direct diverse cross-functional teams to a common goal.
Strong experience leading value-creating and capturing processes.
A passion for holistic thinking and continuous improvement.
An ability to manage and direct the corporate and multi-functional project portfolio.

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