

Designing and pricing of advanced service offerings based on customer value

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Extended abstract:

Introduction

Manufacturing companies are currently competing for the identification of innovative value propositions to position themselves in the market and this led to a shift from providing traditional transaction-based and product-centric offerings towards the provision of integrated solutions to their customers (Pezzotta et al., 2014). When companies fail to account for collective and relational goals in customer solutions, a mismatch can occur between firms' solutions and those that customers envision meaning that understanding the integration process of customer networks and revise value propositions is essential to improving service design (Epp & Price, 2011).

The purpose of this paper is to describe the results and the process developed from the designing and pricing of advanced

services that was supported with the customer value proposition (Osterwalder & Pigneur, 2010).

Research methodology

Internal interviews with different representatives of departments within the firms were focused to assess availability of the internal data and to obtain direct feedback from a range of different perspectives in both qualitative and quantitative form. External interviews with long-standing senior managers from the industry understanding the end-to-end sales process were performed to support the current state-of-art on pricing. The structure and the questions were based on the initial literature review. The focus was on pricing objectives, strategies and tools. Customer surveys were focused to collect insight from the target group. The industrial use cases of two firms were used to develop the process. The first firm in this study was an established middle-size company in the global market servicing OEM clean room equipment.

The second firm was a small-size company in the global market of offshore wind solutions for bolting. In both companies, a set of internal workshops were performed to develop the process of designing and pricing of service offerings.

The final stage of the methodology was to take the two industrial use cases, the literature review, survey and interview results to build a prototype process that could support designing and pricing of service offerings based on customer value. The objective in building a process was to create one that supported and highlighted the importance of designing and pricing service offerings based on market analysis, internal value creation and customer value.

Results and Discussion

The internal interviews involved different company departments and provided insight about pains and gains of the customers, price sensitivity and where possible economics such as estimated costs, customer and business information and competitive pressures around the provision of both planned and unplanned services from the internal perspective. The results of the external interviews provided details of the objective of pricing and the strategies applied to obtain the objectives and tools subsequently used to support the achievement of the objectives. Customer surveys provided insight about pains and gains of the customers, price sensitivity and where possible economics from the customer perspective. Using the results of the use cases workshops and integrating these with the best practices identified in the literature, interviews and surveys, the authors have designed a process to assist industrial firms to understand better and improve the design and pricing of service offerings based on value that the customer are expecting. The proposed framework for designing and pricing services is shown in Figure 1. It provides a model for building a modular value proposition for services and pricing the offering according to customer value.



Figure 1. Three-step framework for developing and pricing valuable services

Step 1. Customer and value identification

Customer identification is best done through ecosystem mapping. To create a detailed understanding of value the customer value propositions are to be created for key actors from the ecosystem (Stickdorn & Schneider, 2011).

Step 2. Building and prototyping solutions

Building and prototyping solutions describe the solution development based on customer problem that was defined in Step 1. Each proposed solution should address the business problem. The framework develops three different solutions: the Complete or 'gold plated' solution, a Basic solution (or the "minimal viable product") and the best match (see Figure 2). For each solution 3-5 additional options should be created. A comparison with the current solution should be undertaken in the final step. To help with this process, it is useful to consider the two extremes of 'do-it-yourself' and 'do-it-for-me' as well as a more normal 'do-it-with-me' delivery model. The next step is to create a module structure for the offer based on standardized process and options (Kowalkowski, et al., 2011).

Step 3. Service offering value quantification and pricing

The final stage of service offering value quantification using West and Kujawski's (2016) value-based pricing framework (Figure 3). This starts from the value in use concept, benchmarking of price, estimation of the value (or cost) of the pains and gain in an attempt to identify the total value delivered to the customer. It identifies the net value and the customer "pains" and "gains" on the base of the product-service value model (Smith et al. 2014). The final state shown is the cost built up with an estimation of the potential remaining margin.

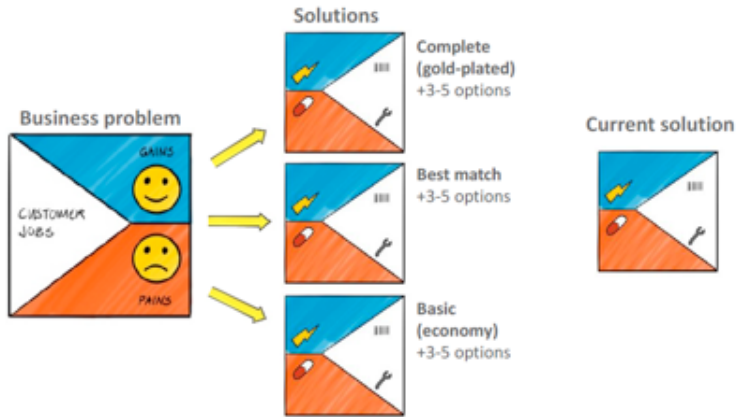


Figure 2. Three level solution offering development based on customer problem identification



Figure 3. Value-based pricing framework

Conclusions

This paper contributes by confirming that understanding the customer value is important in design and pricing of industrial services. It reinforces the need to understand the key actors within the ecosystem, determine the value exchange between them and specify service pricing dimensions that are important to the

customer. This work shows that scope and price are related to delivered customer value. It helps to convert discovered customer value into tangible and intangible service offering that is priced according to quantified customer value.

The quantification of customer value supports the process of designing value-based pricing of services.

Keywords: service offering, customer value, value-based pricing, modularity

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