

# Value Assessment Project

John A. Weber, University of Notre Dame

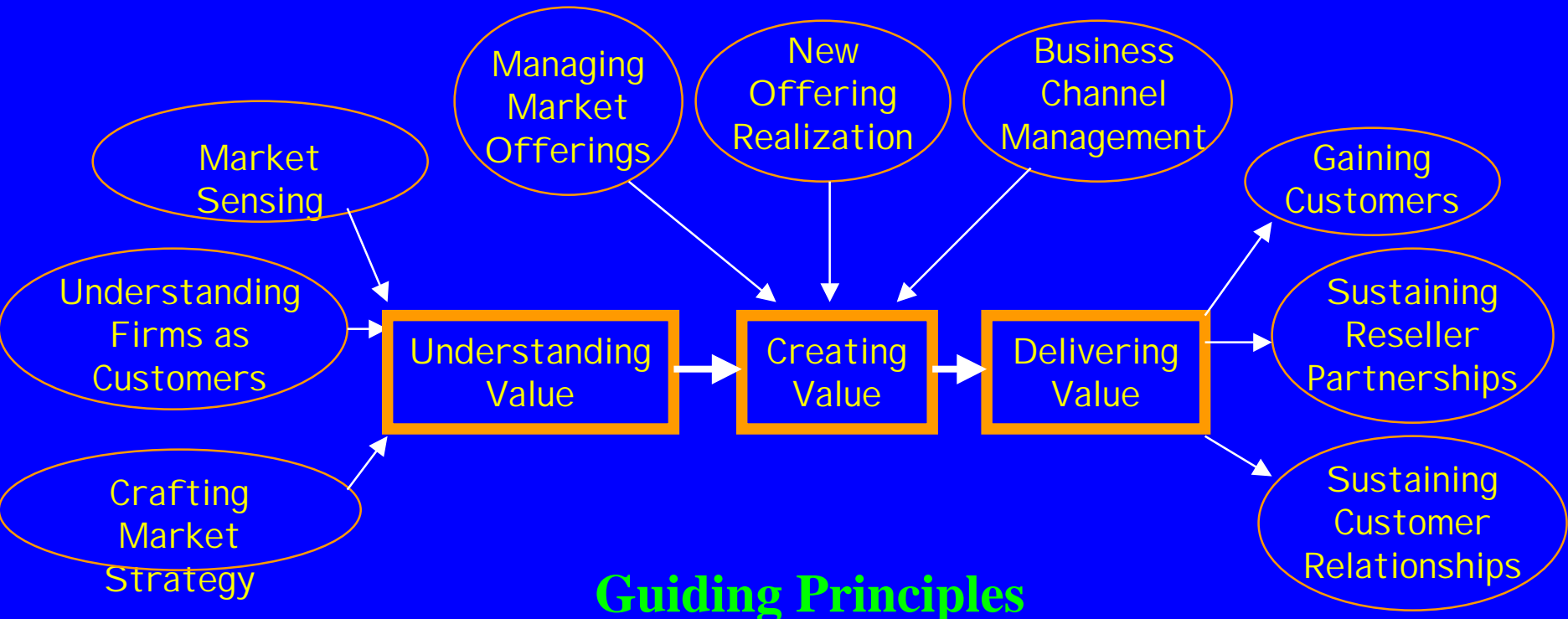
IBM Conference on Education in Electronic Commerce  
IBM T. J. Watson Research Center  
Hawthorne, NY  
10/11-10/12/2000

# Value Definition

- In the context of business markets, **value** is “the worth in monetary terms of the economic, technical, service, and social benefits a customer firm receives in exchange for the price it pays for a market offering.”

# Value as the Cornerstone in the Anderson/Narus framework

## Business Market Processes



## Guiding Principles

**Regard Value as the Cornerstone**

**Focus on Business Market Processes**

**Stress Doing Business across Borders**

**Accentuate Working Relationships and Business Networks**

# Purpose of the Value Assessment Project

- Using the 'Value Assessment Project' as a focal point for the course offers students an opportunity to operationalize the full range the value related concepts covered in the text & course.

# Overview of the Value Assessment Project

- Student teams select an offering and calculate its 'differential net value' versus a competitive offering.
- The competitive offering analyzed may be a competing brand or simply a generic substitute.
- Students assess the comparative values and determine the customer's 'incentive to purchase' our brand

# Overview of the Value Assessment Project, cont.

- Accomplished by identifying and estimating benefits derived against costs-in-use of each offering
- to determine the 'value in use' of each offering (without yet considering the up front price).
- This value in use of each offering less its up front price equals the 'net value' of each alternative.

# Overview of the Value Assessment Project, cont.

- The difference between the net value of one alternative and another is the 'Customer Incentive to Purchase.' Thus,
- $(\text{Benefits}_f - \text{Costs in Use}_f - \text{Price}_f) - (\text{Benefits}_a - \text{Costs in Use}_a - \text{Price}_a)$
- $(\text{Value}_f - \text{Price}_f) - (\text{Value}_a - \text{Price}_a)$
- = Customer Incentive to Purchase

(where  $f$  represents the firm's offering and  $a$  the alternative offering)

# Developing Guidelines for Student Value Assessment Projects

(Lessons from Experience in Managing Student Value Projects)

- what products and companies?
- buy or sell side?
- generic or brand versus brand competitors?
- how many competitors?
- how identify benefits and costs in use?

# Developing Guidelines for Student Value Assessment Projects, cont.

- treat all factors the same?
- how many factors?
- what do with factors you are having difficulty quantifying (referred to as 'placeholders')?
- one year or life of investment (e.g., present value)?
- how to communicate the analysis into meaningful terms?

# Value Assessment Project Guidelines

- Guidelines for the Student Proposal (see handout)
- Guidelines for Project Itself

# General Outline for Your Value Assessment Project

- Company?
- The Product or Service?
- The Target Segment?
- The Offering
- Preliminary value analysis to select points for value differentiation
- The Value Proposition
- Strategic Positioning Statement

# Value Assessment Project Evaluation Forms

- Summary Form (see handout)
- Detailed Form

## Model Variables

Hardware (Server) Acquisition Costs:	\$ 100,000	
Number of servers:	3	▲▼
Total # of employees:	15,000	▲▼
Total # of application users:	120	▲▼
ASP license agreement:	License fee included	▼
Conventional months to implement:	9	▲▼
ASP months to implement:	2	▲▼
Number of remote sites:	1	▲▼
Average IT compensation:	\$ 75,000	
Number of IT current personnel:	4	
Adjusted Number of IT current personnel:	15	
% Internal IT support for ASP:	20%	
ERP increased productivity:	\$ 20,000	
Turnover % rate of IT personnel:	35%	
Hiring cost as % of salary:	50%	

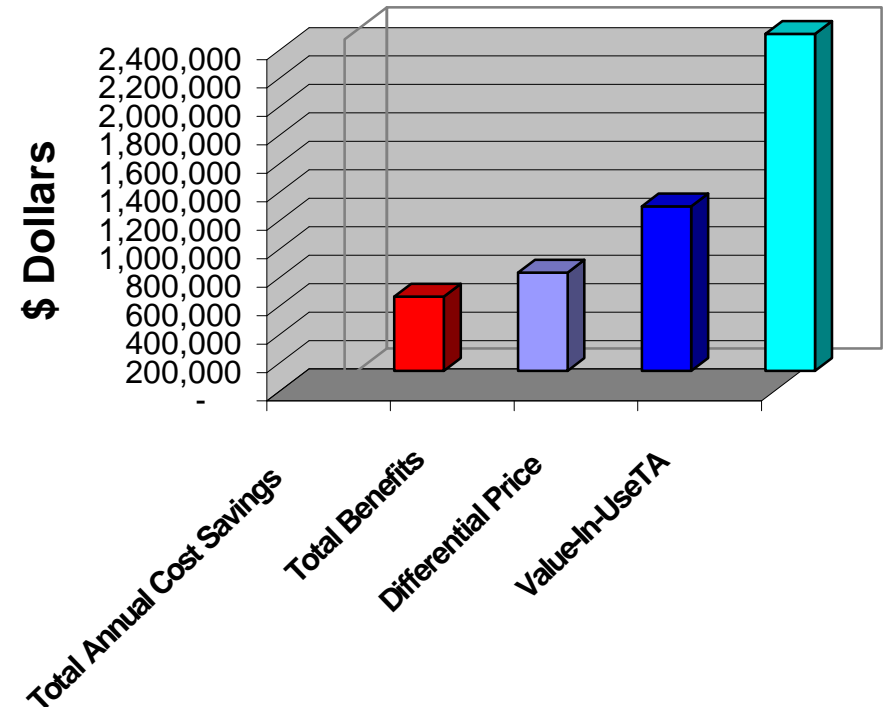
### PLACEHOLDERS:

Expert knowledge
Maximize application
Scarcity of talent
Increased company growth
Flexibility
Security/Reliability of systems

## ASP VALUE IN USE

\$2,370,179

### Value Component Graph



# Five-Year Value Breakdown

## Scitex Lotem vs. Generic System

(Equipment Financed over Five Years)

(All Figures Taken from Value Proposition - Appendices D & E)

	Year 1		Year 2		Year 3		Year 4		Year 5	
	Generic	Scitex	Generic	Scitex	Generic	Scitex	Generic	Scitex	Generic	Scitex
<b>Benefits</b>										
Make Ready Savings	-----	\$175,000	-----	\$175,000	-----	\$175,000	-----	\$175,000	-----	\$175,000
Film Carry Cost Savings	-----	\$7,795	-----	\$7,795	-----	\$7,795	-----	\$7,795	-----	\$7,795
Salvage Value	\$25,000	-----	-----	-----	-----	-----	-----	-----	-----	-----
<b>Benefits Total</b>	<b>\$25,000</b>	<b>\$182,795</b>		<b>\$182,795</b>		<b>\$182,795</b>		<b>\$182,795</b>		<b>\$182,795</b>
<b>Costs</b>										
Labor Costs	\$1,184,040	\$897,000	\$1,184,040	\$897,000	\$1,184,040	\$897,000	\$1,184,040	\$897,000	\$1,184,040	\$897,000
Materials Costs	\$395,300	\$267,400	\$395,300	\$267,400	\$395,300	\$267,400	\$395,300	\$267,400	\$395,300	\$267,400
Installation Downtime	-----	\$9,667	-----	-----	-----	-----	-----	-----	-----	-----
<b>Costs Total</b>	<b>\$1,579,340</b>	<b>\$1,174,067</b>	<b>\$1,579,340</b>	<b>\$1,164,400</b>	<b>\$1,579,340</b>	<b>\$1,164,400</b>	<b>\$1,579,340</b>	<b>\$1,164,400</b>	<b>\$1,579,340</b>	<b>\$1,164,400</b>
<b>Price</b>										
Yearly Finance Payments*	\$40,152	\$76,524	\$40,152	\$76,524	\$40,152	\$76,524	\$40,152	\$76,524	\$40,152	\$76,524
Yearly Service Agreement	\$19,800	29,940	\$19,800	29,940	\$19,800	29,940	\$19,800	29,940	\$19,800	29,940
Trade-in Incentive	<i>* Principle financed reflects</i>		-----	-----	-----	-----	-----	-----	-----	-----
Volume Discount (3%)	<i>all discounts</i>		-----	-----	-----	-----	-----	-----	-----	-----
<b>Price Total</b>	<b>\$59,952</b>	<b>\$106,464</b>	<b>\$59,952</b>	<b>\$106,464</b>	<b>\$59,952</b>	<b>\$106,464</b>	<b>\$59,952</b>	<b>\$106,464</b>	<b>\$59,952</b>	<b>\$106,464</b>
<b>Benefits - Costs - Price</b>	<b>(\$1,614,292)</b>	<b>(\$1,097,736)</b>	<b>(\$1,639,292)</b>	<b>(\$1,088,069)</b>	<b>(\$1,639,292)</b>	<b>(\$1,088,069)</b>	<b>(\$1,639,292)</b>	<b>(\$1,088,069)</b>	<b>(\$1,639,292)</b>	<b>(\$1,088,069)</b>
<b>Yearly Scitex Value</b>		<b>\$516,556</b>		<b>\$551,223</b>		<b>\$551,223</b>		<b>\$551,223</b>		<b>\$551,223</b>
<b>NPV of Scitex Value</b> (Discount Rate = 8%)		<b>\$2,168,775</b>								

\* Assumes finance payments made once per month for 5 years (total of 60 payments) at an interest rate of 8% and \$0 down at time of purchase. Total purchase price equal to price less trade-in and volume discount. Yearly service agreement is paid yearly in one lump-sum payment.

- Monthly Payment for Generic = \$3,346 and Monthly Payment for Scitex Lotem = \$6,377