Commercializing the Analytic2013

In the east of the Netherlands the company Ypsilion develops, produces and sells analytical systems based on X-ray (roentgen) technology. These systems are used worldwide by customers for analysing samples of materials. During the process of analysis the system looks at the molecule structure of the materials. With the system many different materials can be analysed, from solid materials to liquids. One segment of customers is active in industries with mass production, such as mining, metals and pharmaceuticals. In these industries the analysis of samples is used for production control processes. For these customers efficient production is their most important value driver.
Recently Ypsilion developed a new system, the Analytic2013. This new system is in a few aspects superior to the current system offered by the only competitor:

- With the new system customers can increase the number of samples analysed per day from 50 to 55. (the system can measure up to 20 different materials).
- The system can be operated by less educated people. For the current systems an operator costs €40.000,- per year; for the new system an operator costs only €35.000,- per year.
- Instead of 2 maintenance days per year, the new system only needs one maintenance day; this means that an extra day of productivity remains. The maintenance of the system will be done by Ypsilion.
- The system has the capacity to analyse 20 different materials without adapting the software and hardware; if you want to measure up to 40 different materials you can do that with a software and hardware upgrade at the initial investment. The system of the competitor just has the capacity to measure 10 different materials (no upgrade possibility); if you want to measure more than 10 different materials you have to reset and clean the system.
- The Analytic2013 is via the internet connected with the technical support desk in the Netherlands. This remote connection makes it possible to monitor the system.
- The accuracy of the analysis is much better. This means a better quality of the analysis.
- The selling price of the new Analytic2013 is €90.000,- with a life time of 5 years. A maintenance contract is offered at a fixed price of €2.000,- per system per year. The selling price for the software and hardware upgrade to measure up to 40 different materials is €5.000,-

Ypsilion's product manager, responsible for the new system, did some research at customers in the mass production (mining, metals, pharmaceuticals) segment. He came up with the following information:

> Time and efficiency is everything. Customers can take maximum advantage of the increase in samples per day. More samples analysed means better process control and this means more output and sales. Every extra sample analysed has a value of €5,- to the customer. The quality of the analysis done by the current systems is good enough. Companies in mass production operate 24/7, 365 days a year. For every analytical system 0,5 operator is needed. The maintenance is done by the supplier for which customers have to sign a maintenance contract. The fact that a system can be monitored remotely by the manufacturer give customers a feeling of security and ease. The maximum number of different materials that has to be measured is 8. From the competitor's system is known that the initial investment is €75.000,-, the maintenance contract is €2.500,- per year and the life time of the system is 5 year.

A: Construct a *customer value model* for the Analytic2013 in the mass production segment **.**
Take into account the following:

- Use word equations to illustrate your calculations.
- Separate the different years in your customer value model.
- (Partial) Replacement of operators can be done immediately, so cost savings can be realized at once.
- If you make assumptions, describe them well.

B: Calculate the net present value of the Analytic2013 (compared to the competitor's system.) Use an interest rate of 10% per year and take into account the lifetime.

C: In their article 'Customer Value Propositions in Business Markets', Anderson and Narus (2006) distinguish between three different kinds of value propositions. Please mention these three kinds of value propositions and describe what the most important differences between them are.

D: Develop a value proposition for the Analytic2013 for the mass production segment. Please justify your choice!

Solution

Analytic2013 versus NBA

	Analytic2013	NBA
Selling price	€ 90.000	€ 75.000
Lifetime	5 years	5 years
Maintenance contract	€ 2.000	€ 2.500
Labour costs operator	€ 35.000	€ 40.000
#operators per machine	0,5	0,5
#samples per day	55	50
#production days	364	363
Value sample	€ 5	€ 5
#different materials	20	10
Up to 40 different materials	Upgrade € 5.000	Not known
Remote monitoring	yes	Not known
Interest rate	10%	10%

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Word equations

- Saving Labour costs =

(labour costs per year $_{Analytic}$ - labour costs per year $_{NBA}$) * number of operators per system

(35.000 – 40.000) * 0,5 = - 2.500

Every Analytic system saves 2.500 per year on labour costs

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Word equations

- Saving Maintenance costs=

(Maintenance costs per year $_{Analytic}$ - Maintenance costs per year $_{NBA}$)

(2.000 – 2.500) = - 500

Every Analytic system saves 2.500 per year on maintenance costs

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Word equations

- Benefit more analysis =

((number of production days$_{Analytic}$ * analyses per day$_{Analytic}$) – (number of production days$_{NBA}$ * analyses per day$_{NBA}$)) * value per analysis

((364 * 55) – (363 * 50)) * 5 = 9.350

Every Analytic system results in 9.350 extra benefits per year due to more analyses

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Word equations

- Price elements =

Investment/lifetime$_{Analytic}$ - Investment/lifetime$_{NBA}$

90.000/5 – 75.000/5 = 3000

Every Analytic system is 3.000 more expensive per year

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Customer value Model

Value elements:	1	2	3	4	5
• Labour costs	2.500	2.500	2.500	2.500	2.500
• Maintenance	500	500	500	500	500
• More analysis	9.350	9.350	9.350	9.350	9.350
	12.350	12.350	12.350	12.350	12.350

Placeholders Security and ease because of remote monitoring (+)

Price elements					
• Price diff.	3.000	3.000	3.000	3.000	3.000
VIU	9.350	9.350	9.350	9.350	9.350

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Net Present Value

- NPV = - 15.000 +
  12350/1,1^1+
  12350/1,1^2+
  12350/1,1^3+
  12350/1,1^4+
  12350/1,1^5=
  31.816,33

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Three kinds of Value propositions

- All benefits: Supplier sums up all the possible benefits of the offering. Regardless if benefits are relevant to the customer. You only need knowledge about your own market offering.
- Favourable point of difference: Suppliers sums up all benefits where he has a demonstrably advantage compared to the competitor, regardless if these favourable benefits are relevant to the customer. Next to knowledge about your own offering you also need knowledge about the competitor's offering.
- Resonating focus: Suppliers sums up one or two benefits that create most value for the customer (are very relevant for the customer). These benefits will be points of difference; but also points of parity can be mentioned. This value propositions needs knowledge about your own offering, the competitor's offering and the customer's value drivers.

- So differences are in the knowledge you need from your competitors and customers. The resonating focus value proposition is considered to be the best one.

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Value Proposition Analytic2013

- Sums up the value of your offering to your customer
- 1-2 sentences
- Focus on the big points that are relevant to the customer in question!

So,

"The Analystic2013 improves your efficiency by increasing the number of samples analysed and lowering the operator costs. On top of that the remote internet connection with our helpdesk guarantees a smooth and safe operation."

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Justification

- In the mass production segment 'efficiency and time is everything'. This is the most important value driver and therefore this must be emphasized in the value proposition. On top of that the proposition must be built around point of difference and parity (derived from the customer model).

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