

Customer's Economics Justify Value

Cost Savings Is a Good Start But Can Be a Trap

- **There are only three strategies to increase value**
 1. Increase benefit
 2. Decrease cost
 3. Combination of above
- **Risk and uncertainty are factors in assessing value**
 - Different meaning for benefit and cost
 - Use with the basic strategies to change value
 - Can take into account non-economic value (e.g. prestige)
- **Time element important (e.g. payback period, ROI)**

$$\text{CUSTOMER VALUE} = \frac{\text{Economic Benefit}}{\text{Cost of realizing benefit}}$$



Typical Benefit and Cost Areas

Use These to Influence Your Customers' View of Your Prices

- **Benefits of product use**
 - Labor, material savings
 - Faster time to market
 - Decreased downtime
 - Fewer product rejects
 - Increase number of customers
 - Less training
 - Impact of risk: Decreases benefit
- **Costs of realizing benefit**
 - Product acquisition
 - Management investment
 - Training
 - Lost time
 - Conversion time, costs
 - Facility changes
 - Impact of risk: Increases cost



Probe for Value If Benefit Not Obvious

Also helps structure deals

- **How do people use product?**
 - Personal vs. group use
 - Transaction vs. continuous use
 - Sporadic use vs. frequent use
- **How do customers want products installed, supported ?**
 - Server vs. client vs. workgroup
 - Division, site, company-wide, corporate
 - In-house vs. external support
- **How do customers talk about their business?**
 - Revenues, growth, profits
 - Customer acquisition, retention
 - People, product, production



Watch Out For Switching Costs

Have Greatest Impact on Value

- **Data / business process conversion**
 - Mistakes induced by conversion
 - Previously hidden mistakes now evident
- **Equipment and ancillary software**
 - Hardware upgrades / expansion / changes
 - System and non-systems administration
- **Training and other compatibility costs**
- **Perceived risk**
 - Downtime
 - Personal issues

