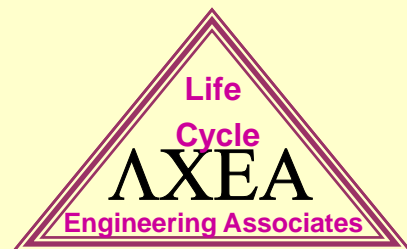




# *Value Management = Market Leadership*

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# What is Value?



- A measure of appropriate cost and performance
  - value always increases by decreasing cost
  - value increases by increasing performance

*[if Customer needs, wants & is willing to pay for]*
- Maximum Value is never achieved

# Why Value?



- It's a benchmark for continuous improvement
- it reflects what the customer is willing to pay for
- It should always be the primary basis for pricing
- the alternative is commodity pricing
- At a strategic level, it is the measure of the viability of the enterprise over the long term
  - culture driven by Customer-, Improvement- & cost awareness

# World Class Value 'Simplified'



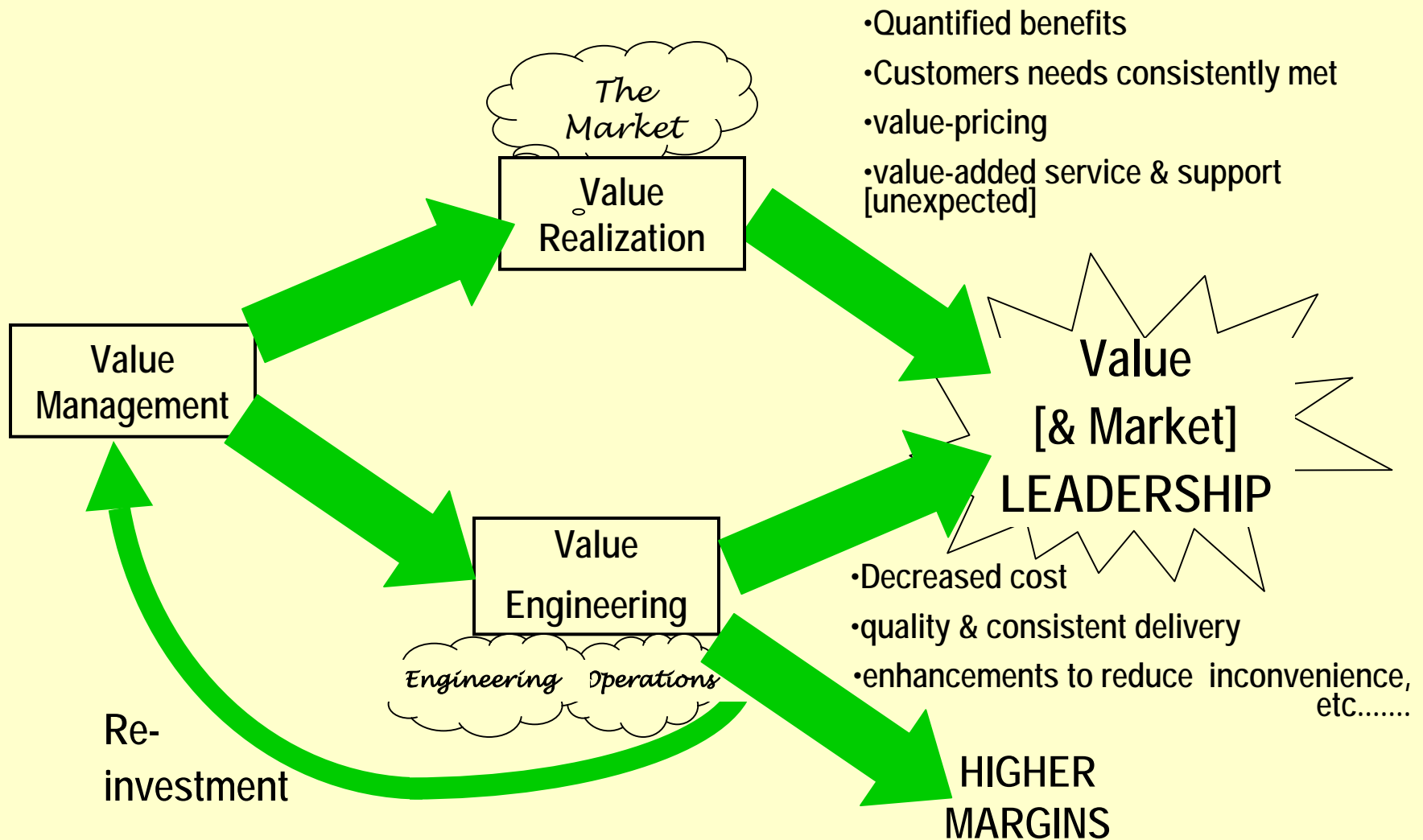
DIMENSIONS	BENEFITS
<p><b><u>Strategic</u></b> [Value Management]</p> <ul style="list-style-type: none"><li>• Enterprise 'value proposition'</li><li>• Vision &amp; mission</li></ul>	<p>What core business do we offer that offers unusual value or benefits, <b><i>above that</i></b> promised by competitors or existing products? How do we remind our Customers of this Value?</p>
<p><b><u>Marketing</u></b> [Value realization]</p>	<p>Quantifies benefits of our product/service vs. cost [vs competitors or "in-house"]</p>
<p><b><u>Tactical</u></b> [Value Engineering]</p>	<p>Determines effectiveness of improvement programs, training, etc in more than just the "accounting" framework</p>

# The How of Value!



SUPPORTS...	THRU...	METHODS
1. Strategic Planning	...enhancing 'value proposition by Quantifying value [benefit] to attract new Clients	Quality Function Deployment [QFD]; use of Value-Added Matrix [VAM]
2. Marketing	Relating Value to Customer's perception of their place in the market	KANO
3. Tactical Operations	Predict impact of changes; assess impact of change	6-Sigma Life-cycle cost analysis Cost/Benefits Analysis Value Analysis
4. Customer 'Maintenance'	Continuously assess value in terms of Market or opportunities lost	Customer Satisfaction Management System: <ul style="list-style-type: none"> <li>• Surveys</li> <li>• Other feedback</li> </ul> "Control Panel"

# Perspective on *World Class Value*



# Tools for Value Leadership



1. Voice of the Customer (VOC)
2. 'Breakthrough' opportunities [KANANO]
3. Opportunity costs
4. Value calculation ( the quantitative approach)

# Steps in Realizing “Value Leadership”



[taken from Value Leadership by Michael C. Harris [ASQ Quality Press, 1998]

- Define the vision, values and the mission
- ‘vertical’ alignment [of organization with the vision]
- understand “Voice of Customer”
- ‘horizontal’ alignment [of the organization with suppliers and Customers in the value chain]
- Continuously improve
- Foster leadership and teamwork
- Integrate and monitor system through metrics

# Why this hasn't been done before..



- Traditional methods to collect data and build model are costly ... but...
- If you integrate your value model with the quality system [ISO 9000, CMMI, other], such data will be more available than through traditional accounting systems today; (accessible within minutes/'usable' within hours) to support...
  - Proposals, promotion, Customer maintenance
  - stockholder meetings
  - internal process improvement teams

# What's Next



- Evaluate the 5 Critical concepts of Value
  - Voice of the Customer [VOC]
  - Identification of “breakthrough” opportunities
  - Opportunity costs
  - Value quantification
  - Control panel[management of value]
- Identify a time-critical [done in < 2months], high ROI project
- Plan a longer-term Value Engineering strategy



# Back Up Slides

# 1. Voice of the Customer [VOC]



- Controlled, standardized & repetitive processes (ISO 9000) are not enough; this represents only the “voice of the process” [VOP]
- ALL Enterprise processes must be vertically aligned [reflect the VOC]
- KANO identifies value-added breakthrough opportunities to discriminate unique product attributes which can...
  - be advertised
  - support charging a premium
  - carefully managed through design, sales, quality & after-sales support programs
- Quality Function Deployment [QFD] and the ‘House of Quality’ allow the VOC to be translated to consistently executable tasks [VOP]
- Value-Added Matrix looks at VOC, quantitatively!

# 2. KANO Modeling: Finding "Breakthrough" Opportunities



## Overview of the Model

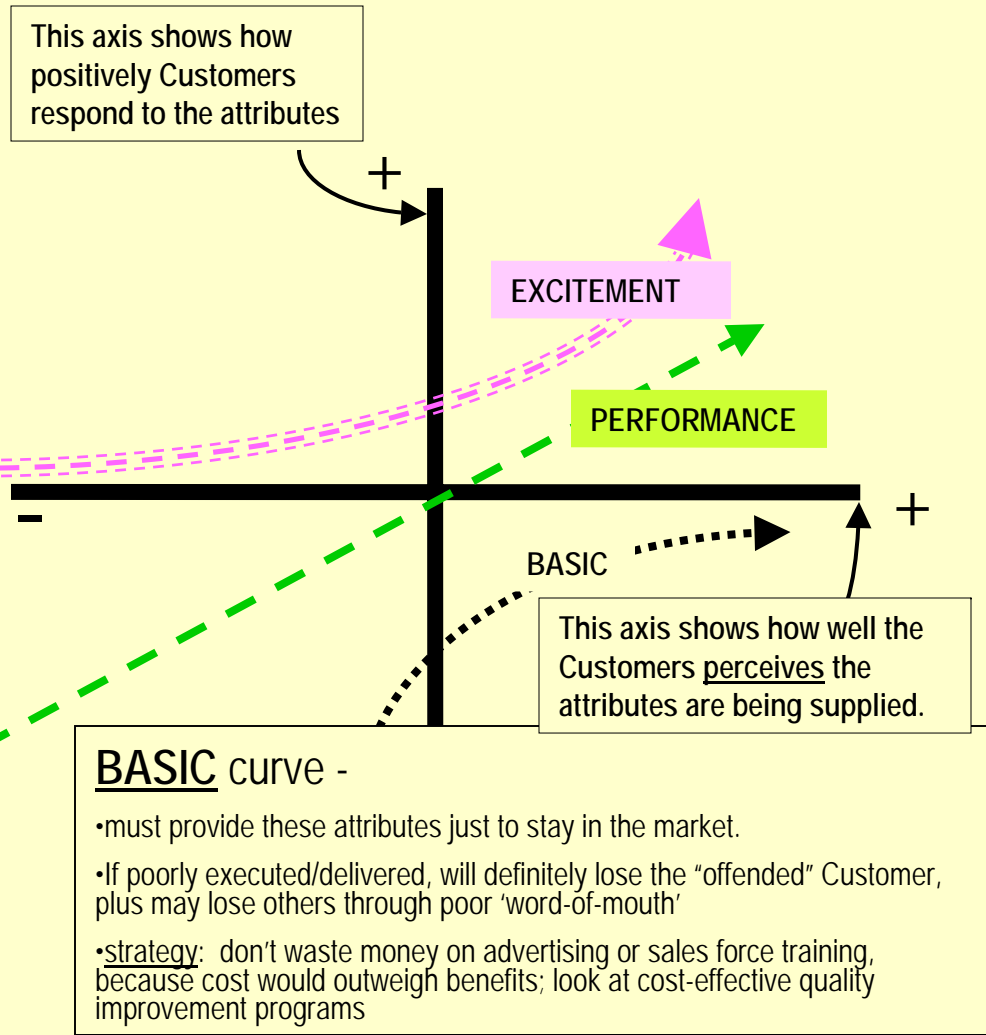
Human response to product attributes falls along these three main curves. Suppliers of products/services need to know how to react to these attributes

**EXCITEMENT** curve -

- "delights Customers" [even when not well executed]
- commands a price "premium"; advertise
- accumulate "profit" on these features as long as possible

**PERFORMANCE** curve -

- roughly a 1-to-1 relationship on how well a supplier delivers an attribute and future Customer loyalty
- strategy: advertise those that are done well; downplay others
- accumulate "profit" on these features as long as possible



# Customer Feedback: Survey Questions



- **Questions should address**
  - satisfaction
  - importance
- **Provides numeric data**
- **Provides a status**
- **What else can be done with the data . . .**

**How important is price to you when you go on personal travel?**

1-----2-----3-----4-----5  
Not Very Indifferent Very  
Important Important

**How satisfied were you with the price of your most recent personal airline travel?**

1-----2-----3-----4-----5  
Not Very Indifferent Very  
Satisfied Satisfied

**How satisfied were you with the ticket price for the last air travel you did with one of our competitors?**

1-----2-----3-----4-----5  
Not Very Indifferent Very  
Satisfied Satisfied

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# 3. Opportunity Costs



- Less tangible measure; not readily collected through conventional accounting systems
- usually mathematical relationships based upon understanding of industry, market demands & even key individual Customers who lead a market/industry
- equivalent to “time-value of money” as applied to not seizing the moment/acting during a window of opportunity
  - e.g., delay in deploying a labor-saving device, quality system or communications process
  - resulting in loss of economy of scale, fulfillment of Client needs; loss of competitive advantage
- a more easily measured parameter is an alternate productive use of resources
  - e.g., making a case for outsourcing as opposed to
  - permanent staff doing ‘non-core’ work Vs. value-added Client-oriented activities

# 4. Value: A 'Quantitative' Model



- Simply: 
$$\text{Value} = \frac{\text{What is received [benefit]}}{\text{What is paid [cost]}}$$

- More detailed:

$$\text{Value} = \frac{\text{Actual Benefit} + \text{Perceived Benefit}}{\text{Price} + \text{Inconvenience} + \text{Perceived Cost}}$$

- notes:
  - Perceived Benefits or cost include emotions, expectations exceeding reality, add'l service, treatment, fairness, "KANO characteristics [can be positive or negative]
  - Inconvenience is the 'burden' associated with the product/service purchased [cost of poor quality, training, inspection, "opportunity costs"]
  - mathematical relationships can be defined for each sub-level of the model; not necessarily linear relationships
  - use of KANO model characteristics can also be quantified or mathematically modeled

# Another View of Value



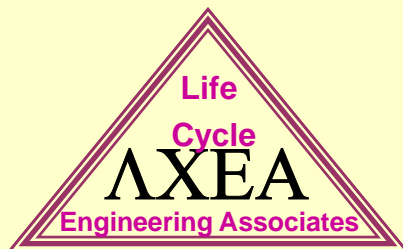
## Quality x Service

$$\text{VALUE} = \text{Cost} \times \text{Cycle Time}$$

- Quality is 'how well you know what your Customer wants and how well you satisfy that want for the primary product or service you offer'
- Service is 'how you support the complete product; i.e., how difficult is the bill to understand? Is your customer service phone answered 95% of the time in less than 4 rings?'
- Cost is "the physical dollars your Customer pays for the total product/service [also consider life-cycle costs]"
- Cycle Time is "the time it takes to complete a transaction; i.e., 'time to pay a vendor's bill or process a customer's complaint [*also consider 'time to market' or 'time between placing an order and receiving it'*]"



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