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Goals · Insights · Strategy

Digital Camera Value Management Workbook Example

This workbook is provided as an example of the exercises you will see in QDI's Value Management Workbook™.

Value Management Workbook

> ***Workbook Objectives:*** To help management teams build insight about their markets, competitive position and the drivers of market performance. This insight is the catalyst for the breakthrough marketing decisions that grow businesses.

> **1.1 Calculating an Estimated Market**

Market Share Evaluator

> ***Learning Objective:*** To introduce the components of the **Market Share Evaluator™** and complete an exercise that will familiarize you with how the Basic Value Management Workbook tools function.

The **Market Share Evaluator** looks at the three strategic building blocks of Market Share and asks you to estimate your position and the positions of your competitors:

➢ **Close Rate:** a measure of how often you are selected when presented to the customer for a specific product / service (or product / service category)

➢ **Addressed Market:** a definition of the customers you target with specific offerings (products / services) – who are the customers, what are the products / services, and how large is the total market for these products / services within these customers?

➢ **Presence:** a measure of the percentage of the time you are offered for sale to the customer and / or are considered by the customer in his decision process.

> **Estimated Market Share** =
>
> % **Close Rate** * % of **Addressed Market** * % of **Market Presence**

In this exercise, you will first enter your company's name and the names of your major competitors. Then you will enter the projections of market share that you have from other sources (associations, competitive research, etc.). These industry estimates of share will become the benchmarks against which you will compare your model findings.

To develop a model of each company's market share you will then enter your estimates of the Close Rates and Presence for each of your competitors into the model. From these estimates the model calculates the percentage of Market Share each of your competitors occupies. Using this data, the worksheet automatically calculates the differences between the modeled share and the industry data you have entered.

On your first try, you may end up with modeled shares less than 100%. The model allows you to adjust your Presence and Close Rate scores to arrive at a market share of 100% for all the competitors.

This is the starting point for you to use the model to build insight. Your goal is to learn why you and your competitors have the Close Rates and Market Presence that the model indicates – ultimately to learn what you need to change to increase your Market Share.

Exercise 1.1 Instructions:

(Enter percentages as decimals. For example, you should enter 15% as 0.15)

1. In Column B – List yourself and each of your competitors.
2. In Column C - Enter your **estimate** for each competitor's **Market Share** position. The total share for all the competitors should equal 100%.
3. In Column D - Enter your **estimate** of each competitor's **Close Rate**.
    a. In Column D, Row 12 - Enter the average number of competitors present at each sale.
4. In Column E - Enter your **estimate** of each competitor's **Presence**. The total Presence of all the competitors should be equal to the number of competitors present at each sale x 100%.
5. In Column G - The Modeled Market Shares will appear.
6. Column H will show the difference between the modeled share and your estimated share from column C.

Digital Camera Example:

The table below shows the basic mechanics of QDI's Value Management Workbook[TM]. The workbook allows you to project your market share based on you value proposition and presence relative to your competitors.

In this case, we have estimated market shares for each competitor. Then we estimated close rates and presence scores for each competitor. The model multiplies the close rate times the presence to arrive

at a modeled share number for each competitor. This is automatically compared to the initial share estimates that we had projected.

The only additional data we had to enter into the worksheet was the number of competitors that are present at each sale. This is linked to the close rate and presence calculations and is necessary to make the modeled numbers realistic.

Data you should enter							
Numbers that are calculated	**1.1 Market Share Evaluator**						
	Enter Company Names Below	**Market Share** *Estimates*	**Close Rate** *Estimates*	**Presence** *Estimates*	**Addressed Market**	**Model Share** *DxExF*	**Difference** *From your share estimates*
Your company	Fuji	9.0%	30.0%	45.0%	100%	13.5%	-4.5%
Competitor 1	Sony	22.0%	25.0%	60.0%	100%	15.0%	7.0%
Competitor 2	Olympus	24.0%	40.0%	65.0%	100%	26.0%	-2.0%
Competitor 3	Kodak	14.0%	30.0%	55.0%	100%	16.5%	-2.5%
Competitor 4	Canon	23.0%	35.0%	50.0%	100%	17.5%	5.5%
Competitor 5	Nikon	8.0%	30.0%	25.0%	100%	7.5%	0.5%
Calculated Shares		100%				96.0%	
# of Competitors		6					
Average # of competitors present at each sale			3				
Sum of Close Rates and Total Presence			190%	300%			
Theoretical Total Close Rate *Total # of competitors / average # of competitors present at each sale*			200%				
Theoretical Target Presence Total *# of competitors per sale x 100%*				300%			

The actual workbook that follows enables you to determine the close rate for competitors based on the relative value of their offerings. You will determine this relative value by defining and scoring each competitor's performance on the benefits and cost elements that you believe are important to the ultimate customer. You can even weight the relative importance of each of these criteria to the customer. This exercise – the development of the relative value propositions – is your opportunity to build a robust picture of how you believe the market values your offering and how you compare to your competition.

Likewise, you will be able to project market presence based on each company's market coverage, segment coverage and presence to the sale – all factors that impact ultimate presence to actual sales in the market.   Building this picture of market presence will lead you to the initiatives you need to put in place to increase your presence.

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1.2 Addressed Market Definition

> ***Learning Objective:*** To learn how to define your target markets using the three major components of the **Addressed Market Definition**.

The first step is to define the Addressed Market, which is the market segment that you plan to analyze.

1. Product / service definition
    a. Define a specific product or service (or category)
    b. This definition needs to be specific enough to develop data to "size" the opportunity and determine growth rates, etc.
2. Profile these customer segments
    a. Identify the industries they are in
    b. Identify the purpose for which they use your product / service
    c. Identify who will use this product / service
    d. Identify the customer buying behavior
    e. Identify the customer segments that make up 80% of your target market
    f. Determine whether these customers are all the same types of organizations (i.e., large companies)
        i. If not, you may want to consider further segmenting these customers by behaviors, such as the type of purchase, the people involved in the purchase process, etc.
        ii. Ideally, a customer segment will consist of customers with similar needs, served by channels with similar capabilities
    g. Identify customer attitudes segments that could result in different marketing strategies
3. Annual purchases by the customer segment
    a. Estimate the total annual purchases of this segment and the projected annual growth rate

The more granular your segmentation (to include behavior and attitudes as well as demographics), the more meaningful your analysis will be.

Digital Camera Example:

The table below lists the criteria that were selected to describe the segment of the digital camera market that was evaluated in this exercise.

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Descriptors	Segment 1
Product / Service Definition	Entry level digital cameras 2 Mega Pixels
Customer Profiles Who will use the product / service	Consumers who are new to digital photography and are price sensitive
Industry definition (SIC / demographics)	N/A
Application / use of the product	Home / infrequent use
Buying behavior	The buyer will need someone in the store to tell them what to buy
Technical vs. commodity	
Direct vs. indirect	
Other	
Decision makers (title / function)	User / owner or gift buyer
Influencers	Store sales representatives
Users	Buyer or gift recipient
Attitude segments	The target segment will be novice buyers, those who are not very computer literate or experienced in digital photography
Customers who prefer your offering	
Customers who prefer competitive offerings	
Customers who have no preference	
Market size (annual purchases in $)	$1 Billion
Segment Growth Rate	25% per year

1.3 Buyer Benefits

Learning Objective: To complete an exercise that stimulates your thinking about the customer and your performance relative to your competitor 's.

In the Buyer Benefits Exercise, you will be asked to score your company and up to five key competitors for each of the categories driving value below. Your Preference scores will be calculated automatically based on this input.

1. Product Benefits
2. Service Benefits
3. Relationship
4. Brand Benefits

Exercise 1.3 Instructions:

(Enter percentages as decimals. For example, you should enter 15% as 0.15)

1. In the **BENEFIT** column, there is a generic listing of the four benefits you think customers want.
2. In the **CATEGORY IMPORTANCE** column, allocate 100 percent across the four benefit categories to weigh their relative importance to this customer segment.
3. In the **DESCRIPTION** column, define in detail each specific benefit.
   - ► For example, in the product benefit column, you would list the key functional benefits the customer gets from the product or service you are marketing. In the service category, you may list "ease of doing business" or "speed of response" as key benefits.

In the **PERFORMANCE** columns, score the performance you think you and your competitor deliver on each of the four benefit categories. Use the relative performance scores:

a) One of a kind with no competition: 9
b) Much better than average: 8
c) Better than average: 7
d) Just above average: 6
e) Average: 5
f) Just below average: 4
g) Below average: 3
h) Poor: 2
i) Very poor: 1

Digital Camera Benefits Assessment Example

| | Category Importance | Description | Item | Performance | | | | | |
Benefits	Relative Importance of Category 100 Point Allocation	Category Benefit Description	Importance Scores	Fuji	Sony	Olympus	Kodak	Canon	Nikon
Product Benefits	50%	Great Photos, creative applications, stylish	Performance Scores	6	7	8	6	8	9
Service Benefits	15%	Tech Support, availability, warranty	Performance Scores	5	8	7	5	8	7
Relationship Benefits	10%	Stabiity and past experience in traditional photo	Performance Scores	3	7	9	6	8	8
Brand Benefits	25%	Reputation for high quality photography	Performance Scores	3	8	8	6	9	9
Weighted Scores	100%		Sum of the performance scores	4.8	7.4	7.95	5.85	8.25	8.6

Legend (top of table):
- Data you should enter
- Numbers that are calculated

1.3 Buyer Benefit Assessment

As you can see, each camera brand has been compared on four broad sets of benefits. Based on Benefits alone, Nikon had the highest score at 8.6.

1.4 Price Competitiveness

Learning Objective: To translate specific prices for each competitor's product or service into Price Competitiveness Scores that can be applied to market strengthening strategies.

Since the **actual price** charged for a product or service is such a critical factor, we start this exercise by having you list the price for each competitive offering.

- It is important to identify competitive products that are as comparable as possible in terms of functionality and features.
- The price should be the "street price" that the customer pays – and include delivery cost if this is normal in the market.
- The price should not include terms, financing programs, etc., as we put these in the category of Purchase and Adoption Costs.

Exercise 1.4 Instructions:

Step 1: Enter the competitive **"street price"** for each customer's product / service into the worksheet.

Step 2: Translate these prices into a Price Competitiveness Score.

This score shows how competitive each price is relative to the other competitors' pricing. It is assumed that the competitors "make up the market" and there are no other significant competitors who would dictate prices in the market.

Use the scale below to designate a price competitiveness score for each competitor relative to the average price competitor in the market. These compare each competitor to the average price competitor in the market.

a) So very expensive that it must be in another product category: 9
b) Nearly so expensive that it must be in another product category: 8
c) A significant premium above the lowest price: 7
d) Very much higher than the lowest price: 6
e) Average price in the market: 5
f) Marginally lower than average: 4
g) Significantly lower than average: 3
h) Almost as low as the lowest price: 2
i) Least expensive on the market: 1

In the table below we first listed the competitive "street" prices for each brand.   Then we have translated the competitive street prices to "cost scores". The cost scores are our estimates of how customers would react to different market prices.

Numbers you should enter	1.4 Price Competitiveness Assessment					
	Translation of Market Prices to Cost Scores					
Cost	Fuji	Sony	Olympus	Kodak	Canon	Nikon
*Competitive Street Price	169	199	189	179	199	219
Price Competitiveness Score	2	7	5	4	7	9

1.5 Buyer Total Cost Assessment

Learning Objective: To stimulate thinking about your customer and your performance relative to your competitors in each category of cost.

In this exercise, you are evaluating your relative performance versus competition on each category of cost. Use this exercise to stimulate your thinking about the customer and your performance relative to your competitor's performance. Fill out this exercise for your company and up to five competitors.

Exercise 1.5 Instructions:

(Enter percentages as decimals. For example, you should enter 15% as 0.15)

1. In the **COST** column, QDI lists three categories of cost that customers perceive when making a purchase.
   ➢ PRICE COMPETITIVENESS (the scores for this are imported from Exercise 1.4)
   ➢ PURCHASE / ADOPTION COST
   ➢ RISK COST

2. In the **CATEGORY IMPORTANCE** column, allocate 100 percent across the three cost categories to weigh their relative importance to this customer segment

3. In the **DESCRIPTION** column, generally describe the criteria that drive each category of costs.
   ➢ For example, in the product cost column, the purchase price is the biggest driver, but payment terms could also be a key factor.

In the **PERFORMANCE** columns, score the performance you think you and your competitors deliver on each criterion. Use the relative performance score from the scale below.

a) So very expensive that it must be in another product category: 9
b) Nearly so expensive that it must be in another product category: 8
c) A significant premium above the lowest price: 7
d) Very much higher than the lowest price: 6
e) Average price in the market: 5
f) Marginally lower than average: 4
g) Significantly lower than average: 3
h) Almost as low as the lowest price: 2
i) Least expensive on the market: 1

The spreadsheet will do all the calculations for you to determine a total **COST** score for each company.

Data you should enter / Numbers that are calculated		1.5 Buyer Total Cost Assessment							
					Performance High performance scores on costs are not good.				
Costs	Category Importance Relative Importance of Category 100 Point Allocation	Description Category Cost Description	Item Importance Scores	Fuji	Sony	Olympus	Kodak	Canon	Nikon
Price Competitiveness Score	60%	Purchase Price	Cost Scores	2	7	5	4	7	9
Purchase and Adoption Costs	25%	Accessories	Cost Scores	6	8	5	5	7	8
Risk Costs	15%	Standards Adopted	Cost Scores	8	6	4	3	4	3
Weighted Scores	100%		Sum of the Weighted Cost Scores	3.9	7.1	4.85	4.1	6.55	7.85

From a total cost perspective, the Kodak camera at $99 was the best offer even after taking into consideration all of the other cost factors of a digital camera purchase.

1.6 Perceived Value Score

Learning Objective: To see how benefit and cost scores translate into **Perceived Value** for the customers.

The BENEFIT and COSTS SCORES are automatically used to calculate the PERCEIVED VALUE and CLOSE RATE measures. The table below calculates the Perceived Value for you and each competitor you evaluated. This data will be used later to calculate a Close Rate for each of you. You do not have to enter any data on the form.

Numbers that are calculated	1.6 Perceived Value Score					
	You do not have to enter any data on the form.					
Value Measures	Fuji	Sony	Olympus	Kodak	Canon	Nikon
Benefit Score	4.8	7.4	7.95	5.85	8.25	8.6
Cost Score	3.9	7.1	4.85	4.1	6.55	7.85
Perceived Value *Benefits / Cost*	1.23	1.04	1.64	1.43	1.26	1.10

These scores show that the Olympus camera had the highest perceived value, even though it had a lower benefit score than the Canon or Nikon cameras. Olympus was probably helped by its strong photography and quality brand, its relative longevity in the digital camera market, and its more value oriented pricing than Canon and Sony. Nikon, despite having the highest benefit score had a lower perceived value due to its overall costs.

1.7 Close Rate

Learning Objective: To understand how perceived value translates into **Close Rate**.

In this step, we translate Perceived Value scores into Close Rate scores. The only new information you need to add to the worksheet is the average number of competitors who are present at each sale.

Numbers you should enter	1.7 Close Rate Calculation		
Numbers that are calculated			

These calculations use the data from the first cost estimates & the Perceived Value			
	Perceived Value Score	**Relative Perceived Value**	**Close Rate**
Fuji	123.08%	0.960	31.99%
Sony	104.23%	0.813	27.09%
Olympus	163.92%	1.278	42.61%
Kodak	142.68%	1.113	37.09%
Canon	125.95%	0.982	32.74%
Nikon	109.55%	0.854	28.48%
Total Perceived Value Scores *Sum B*	769.41%		
# of Competitors Analyzed	6		
Average Perceived Value Score *B10 / B12*	128.24%		
# of Competitors Competing for a Sales *Enter your estimate into column B*	3		
Note: You should compare your entry in line B16 to entry in Exercise 1.1, line C12. Have you assumed the same number of competitors are present at each sale?			

This shows that the Close Rates range from 27.09% to 42.61%. Thus, Fuji is expected to win 31.99% of the sales it competes for while Kodak is expected to win 37.09% of its sales. Fuji will have to be present at a vastly greater number of sales to be able to compete with the cameras from Olympus and Kodak.

1.8 Market Presence

Learning Objective: To understand the market performance dimensions that drive market presence, and to assess your performance on these elements relative to your competition.

In this exercise, you can calculate the Presence for yourself and each of your competitors. There are four data entry steps for you to follow. IF YOU WISH, YOU CAN JUST ESTIMATE MARKET PRESENCE AND ENTER IT INTO THE CALCULATED PRESENCE COLUMN (E).

This exercise starts by building an estimate of Market Presence. The table below asks you to estimate three dimensions of Presence:

- **Geographic Presence** – the % of the market dollars that have channels in place which could geographically serve these customers, i.e., a sales representative, distributor, dealer or retailer - for yourself and each competitor

- **Account Presence** – the % of the accounts that your sales / distribution channels actually call or (or do business with). These accounts should be channel customers -or at least on the call list
- **Sales Presence** –the % of time you think your products / services are presented for sale when the customer is considering a buy (this would also equate to being visible on the shelf in retail)

Exercise 1.8 Instructions:

(Enter percentages as decimals. For example, you should enter 15% as 0.15)

1. In **Column B** Estimate the Geographic Presence for yourself and each competitor.
2. In **Column C**, estimate the % of accounts that your sales / distribution channels actually call or do business with.
3. In **Column D**, estimate the % of the time you think your products / services are presented for sale when the customer is considering a buy. (In retail, this equates to being visible on the shelf).

Digital Camera Example:

Using the digital camera projections, we calculate Market Presence as shown below. In this example, we have estimated the Geographic Presence – what geographies each competitor has stores in – to range from a low of 70% to a high of 100%. Account Presence is a measure of the degree to which each company has distribution in the key stores in each area / geography that it competes in. In this example, Account Presence ranges from a low of 50% to a high of 90%. The final element is Sales Presence, which in this retail model is a function of being displayed where customers can see the product and being advertised enough so that the consumer will consider you when on a shelf with several competitive products. In general, each of these manufactures scores well here, with scores ranging from a low of 80% to a high of 100%. Multiplying these factors together derives the calculated Presence scores shown below.

We also estimate that the consumer actively considers three products during the average purchase scenario. This is a function of the number of products that the retailer will carry at each price point and the consumer's shopping behavior. Thus, in this model, three products are "present to the sale".

Numbers you should enter				1.8 Market Presence Modeler			
Numbers that are calculated							
Competitor	**Geographic Presence**	**Account Presence**	**Sales Presence**	**Calculated Presence** *Or Enter Your Estimate of Presence for Each Competitor*	**Adjusted Presence** *Divides the Calculated Presence by the Theoretical Presence*	**Estimated Presence** *Based on Introductory Exercise*	**Difference** *Between Calculated Presence (F) and Estimated Presence (G)*
Fuji	70%	80%	75%	42.0%	46.9%	45.0%	-1.9%
Sony	100%	80%	80%	64.0%	71.4%	60.0%	-11.4%
Olympus	100%	90%	90%	81.0%	90.4%	65.0%	-25.4%
Kodak	90%	50%	45%	20.3%	22.6%	55.0%	32.4%
Canon	80%	80%	75%	48.0%	53.6%	50.0%	-3.6%
Nikon	60%	50%	45%	13.5%	15.1%	25.0%	9.9%
Estimated Number of competitors present at each sale *From Close Rate Worksheet*				3			
Calculated Total Presence				269%	3	300.00%	0.00%
Theoretical Presence				300%			
Presence Adjustment				0.90			
The final step is to compare your Adjusted Presence calculation to your initial estimates (from the introductory worksheet). This difference is shown in Column H.							

1.9 Market Share Evaluator

Learning Objective: This exercise provides the learning feedback necessary to assess the validity of your close rate and market presence projections. Your projections are used to calculate a market share estimate for you and your competitors that you can compare to external measures of market share, such as industry association data.

The market share results that you have developed using this workbook may be different than your other data sources. This could be because you have made some incorrect estimates in the close rate and market presence exercises and you need to revisit these. However, your share estimates could also be different because you may be using a different definition of the addressed market than traditional industry data.

The objective of this exercise and the entire workbook is to build organizational learning about the drivers of your market performance. Use these findings as a springboard to develop strategies to improve your market performance on the key dimensions that you believe need to be strengthened.

Exercise 1.9 Instructions:

(Enter percentages as decimals. For example, you should enter 15% as 0.15)

Once Market Presence is calculated for each competitor, you can then complete the Market Share estimates, using the Market Share Evaluator Exercise.

This exercise imports the Close Rate and Presence measures from the previous exercises to generate a Market Share score. The Competitive Close Rate measure shown in column B adjusts the Close Rate based on the mix of competition each competitor faces. This mix is the close rate of each competitor times that competitors' presence to the sale.

These Competitive Close Rates are multiplied by the Presence for each competitor to arrive at the Modeled Market Share. You should enter the market shares you believe each competitor has in column E, based on other market research data. Your job is to analyze the difference. Is your model wrong, or are the "believed shares" wrong?

If the model is wrong, which factors seem to be out of line – Presence or Close Rate? This is the start of an analysis that can build great insight for your management team.

Numbers you should enter / Numbers that are calculated	**1.9 Market Share Evaluator**				
	Competitive Close Rate	**Presence** *From Market Presence Modeler*	**Model Market Share**	**Believed Share** *Enter your best estimates*	**Difference** *From believed share*
Fuji	29.80%	46.88%	13.97%	9%	4.97%
Sony	23.97%	71.44%	17.13%	22%	-4.87%
Olympus	44.84%	90.42%	40.54%	24%	16.54%
Kodak	35.22%	22.60%	7.96%	14%	-6.04%
Canon	30.58%	53.58%	16.38%	23%	-6.62%
Nikon	26.63%	15.07%	4.01%	8%	-3.99%
Total Perceived Value Scores *Sum B*					
Total Presence *Sum column E*		300.00%			
Total Modeled *Share Sum column F*			100.00%		
Total Believed Share *Sum column G*				100.00%	

There are many reasons your management team may have created estimates that differ from the market.

- The group could have underestimated the Presence of each competitor,
- The group could have overestimated the number of competitors present to the average sale - some sales may have three competitors and some none, or some other variation that brings the average number of competitors below three.

- The group could have incorrectly estimated the relative value of each of the competitor's offerings.

The value of this exercise is it begins to help management understand what it takes to drive Market Share and how you really compare with competition and what it takes to change shares.