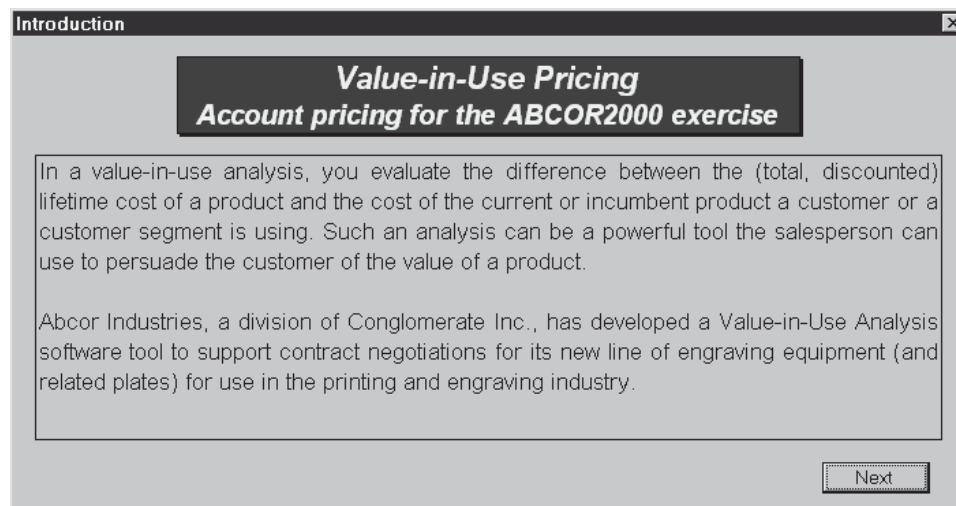


22. TUTORIAL FOR VALUE-IN-USE PRICING (value.xls)

CASE: ACCOUNT-PRICING FOR THE ABCOR 2000, P. 449

The Value spreadsheet is useful for determining the price of a product based on customer value (value-in-use). It is based on the idea that organizations should base their pricing on a careful understanding of what a product is worth economically to a specific customer as well as what it costs the organization to produce the product. The spreadsheet is designed to accompany the exercise "Account Pricing for the ABCOR2000."

From the **Model** menu select **Value-in-use Pricing** (value.xls) to see the **Introduction** screen.



Clicking **Next** brings you to the Input/Analysis Area.

The screenshot shows a spreadsheet window titled "Marketing Engineering - Value". The active cell is A1, which contains the text "Analysis Area". The spreadsheet is divided into several sections:

- Input / Analysis Area:** A table with 13 rows of input parameters.

4	Machine Price	\$12,000	Machine Cost	\$3,980
5	Salvage Value (New Machine)	\$3,000	Production Cost Per Plate	\$0.60
6	Salvage Value (Old Machine)	\$1,000	Initial Annual Number of Plates	990
7			Initial (New) Price/Plate	\$2.00
8			Initial (Old) Price/Plate	\$5.00
9	Discount Rate	15.00%		
10	New Price/Plate Incr/Yr	3.00%		
11	Old Price/Plate Incr/Yr	3.00%		
12	Use Growth/Yr	5.00%		
13	Number of Years (>= 2)	10		
- Graphing Parameters:** A table with 4 rows of graphing parameters.

Machine Price Start =	\$8,000
Machine Price Step =	\$2,000
Price/Plate Start =	\$1.00
Price/Plate Step =	\$0.50
- Next Page:** A button labeled "Next Page" is located at the bottom right of the spreadsheet area.

The status bar at the bottom shows "Ready", "Sum=0", and "NUM".

You can set parameters for analyses on such key inputs as initial annual number of plates, price per plate, machine price, and use growth. The graphing parameters set the origin (start) and the increment size (step) for graphs—the x-axis on the graph begins with the starting value and includes 10 increments of the step size.

Click **Next Page** to see the resulting cash flows.

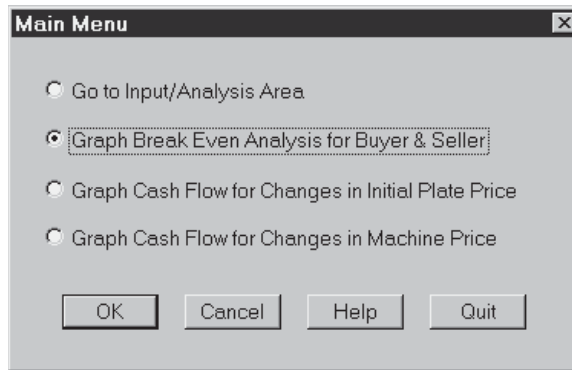
The screenshot shows the same spreadsheet window, now displaying the "Optimization Area" starting at row 100. A "Prev. Page" button is visible on the left. The "TOTALS" row (row 103) shows the following values:

TOTALS =	\$35,333	\$12,734	\$29,437	\$19,193
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Below the totals is a table with 11 columns: Year, Number of Plates, Old Price Per Plate, New Price Per Plate, Buyer Cash Flow, Buyer DCF, Seller Cash Flow, and Seller DCF. The data is as follows:

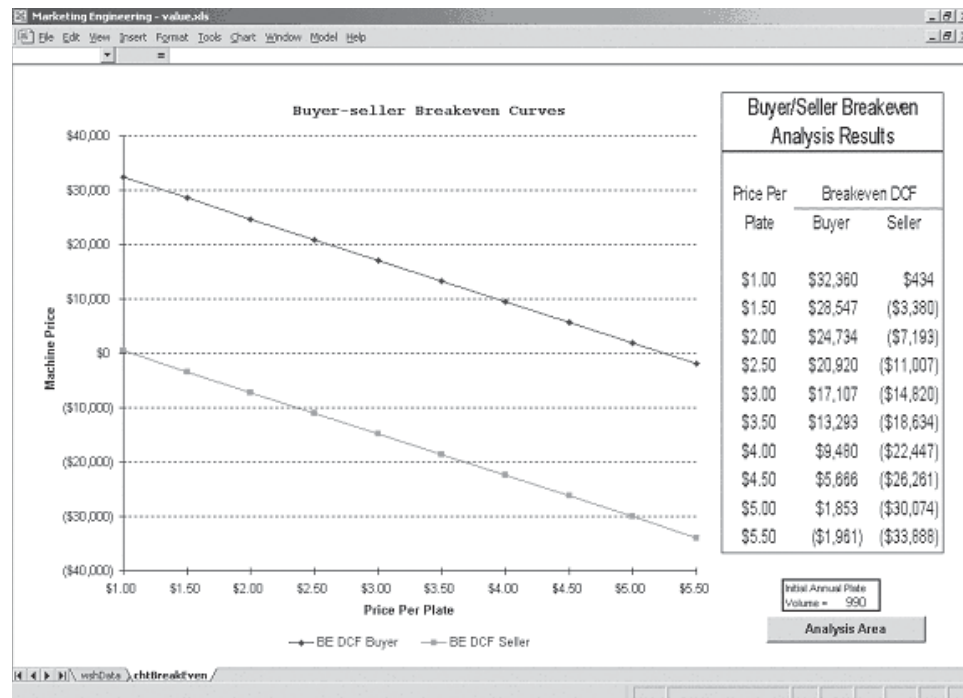
Year	Number of Plates	Old Price Per Plate	New Price Per Plate	Buyer Cash Flow	Buyer DCF	Seller Cash Flow	Seller DCF
1	990	\$5.00	\$2.00	(\$8,030)	(\$8,030)	\$9,406	\$9,406
2	1,040	\$5.15	\$2.06	\$3,212	\$2,793	\$1,518	\$1,320
3	1,091	\$5.30	\$2.12	\$3,474	\$2,627	\$1,661	\$1,256
4	1,146	\$5.46	\$2.19	\$3,757	\$2,470	\$1,817	\$1,195
5	1,203	\$5.63	\$2.25	\$4,063	\$2,323	\$1,987	\$1,136
6	1,264	\$5.80	\$2.32	\$4,394	\$2,185	\$2,171	\$1,080
7	1,327	\$5.97	\$2.39	\$4,752	\$2,055	\$2,372	\$1,026
8	1,393	\$6.15	\$2.46	\$5,140	\$1,932	\$2,591	\$974
9	1,463	\$6.33	\$2.53	\$5,559	\$1,817	\$2,828	\$925
10	1,536	\$6.52	\$2.61	\$6,012	\$1,709	\$3,086	\$877

The status bar at the bottom shows "Ready", "Sum=0", and "NUM".



Go to the **Model** menu and choose **Main Menu** to choose among a number of forms of graphical output.

If you select **Graph Breakeven Analysis for Buyer & Seller**, you will see the range of machine and plate prices that are economically attractive to the buyer and to the seller. Any point at which discounted cash flow (DCF) is positive for both buyer and seller could be an acceptable contract arrangement.



Other graphs provide additional information. You can return to the analysis area to reset parameters by clicking **Analysis Area**.