OMAFIETS B.V.

Mr. Jansen is the sales manager of Tool Inc., a producer of state-of-the art machine tools. A machine tool is a powered mechanical device, typically used to fabricate metal components of machines by machining, which is the selective removal of metal. For example, a drill machine might contain a magazine with a variety of drill bits for producing holes of various sizes. Tool Inc. was particularly proud of its line of multitasking machines. Its latest state of the art machine – Supertool 3000 - works for both turning and milling operations. For some turning operations, the machines use multitasking tools with two inserts for roughing and finishing. Mr. Jansen had many companies in the Dutch bike industry – in particular producers of more advanced sports bikes, like mountain bikes and race bikes. He, however, never managed to acquire an order from a much larger segment of the Dutch bike industry, namely the producers of cheaper bikes for daily use (in the Netherlands, bike theft is a major problem, hence people prefer cheaper and technically less advanced bikes for daily use). These companies usually preferred the lower-priced and technically less advanced machine tools from Asia. Mr. Jansen was pleasantly surprised when Mr. Visser from Omafiets B.V. – a large player in this segment – contacted him regarding a replacement of a machine tool.

Since this customer was important to him, Mr. Jansen himself went to the production site of Omafiets B.V. During his sales pitch, he went out of his way to stress the technical superiority of the Supertool 3000. “With the flexibility of this machine, you can perform state of the art turning and milling operations!” Mr. Visser was not impressed by the technical details. He replied: “We don’t need the flexibility, we only have to mill with this machine. You say you can offer this machine to me at 82,500 Euro. That’s fine, but the machine of your direct competitor only costs 60,000 Euro. So tell me: Why should I buy your machine?” At this point, Mr. Bouma, the production leader of Omafiets B.V. unexpectedly supported Mr. Jansen pointing them to one other difference between the machines: Supertool 3000 has a magazine that holds 30 tools permanently positioned in the magazine, the other machine only has 20 tools available. This means that, when working with Supertool 3000, magazines needed to be changed less often during the process. After half an hour Mr. Bouma returned with some calculations. He expected cost savings to be around 2000 € a year, and they would be able to produce more bikes, which meant extra revenue of around 3000 € a year. Also, due to the less frequent changing of the magazines, he suspected the Supertool 3000 to require fewer reparations and hence have less production downtime, but he could not back this up with exact figures. Both machines would have to be replaced after 5 years, the interest rate used by Omafiets B.V. for calculations is 10%.

Q1: Build a customer value model for the Supertool 3000. Please illustrate your calculations and clarify the assumptions you are making. Based on your calculations, what does Mr. Jansen have to do to close the deal?

Please note: In your exam, you have to elaborate on what you are doing in somewhat more detail!!! Especially say WHY you made certain decisions!

Value difference:
V(Supertool 3000)-V(alternative) = cost savings + extra revenue = 2000 + 3000 = 5000.

Price difference = 22,500 Euro (22,500/5 = 4500 per year)

NPV = -22,500 + 5000/1.1 + 5000/1.1^2 + 5000/1.1^3 + 5000/1.1^4 + 5000/1.1^5 = -22,500 + 18,953.93= - 3,546.07

Alternative:
NPV = -22,500 + 5000 + 5000/1.1 + 5000/1.1^2 + 5000/1.1^3 + 5000/1.1^4 = -22,500 + 20,849.33 = - 1,650.67

Value Elements	1 year
Cost Savings	2000
Benefits (revenue/profit enhancements)	3000
TOTAL VALUE	5000

Placeholder: Less production downtime due to fewer reparations.

Price Elements	
DIFFERENTIAL PRICE	-4500

Value-in-Use	500

Advice: NPV is negative. Option 1: Lower the price. Option 2: quantify the cost savings due to less production downtime. Problem: this will require the machine to run for some time in the factory. Best idea is to lower the price (say: with 5,000 €), sell the machine to Omafiets B.V. and monitor the cost savings due to fewer reparations. If these are substantial, one can use this success story to charge a higher price at comparable companies.

Q2: What should be the value proposition of the Supertool 3000 when targeting the market segment of price-sensitive producers of cheaper bikes? Please develop one possible value proposition and justify your choice. (You can assume that Mr. Jansen follows the advice you gave him in question 1)

- Be creative!!!

- Not: focus on versatility in terms of the Supertool 3000 combines turning and milling operations
- Yes: focus on more production/more revenue due to the magazines having to be changed less. Say something about the larger magazines to give value proposition credibility!