

Value Creation Analysis

Overview

A Value Creation Analysis looks at how each participant is adding value to the network. The roots of this analysis lie in the principles of value-added accounting and value chain analysis. The original theory goes that at every point along the value chain you should be adding value to the product or service. In value network terms, this means that when a Role or Participant receives a value input they should find ways to use that input to provide value outputs in the form of products and services. More recently, some people have been expanding the forms of value added to include knowledge – an Intangible. Value Creation Analysis broadens these questions – to consider and assess even more kinds of Intangible value.

The Value Creation Analysis is focused on the value creation and output of each Role or Participant - much like the Impact Analysis looks at how a Role gains or benefits from an input. Of course, if a Role or Participant can both gain value for oneself and also leverage that input for a greater value output, then that is really converting value!

Like the Impact Analysis the Value Creation Analysis is basically an expanded Asset Management and Cost/Benefit Analysis. So the key questions here are:

- How well are we using our assets to create this value output?
- What value features or enhancements do we provide with this output?
- What is the level of benefit to our own business in providing this output?
- Does the effort to provide this really pay off in the way others perceive value?
- What is the ultimate value cost or benefit to our Industry, Society, and the Environment?

How to use it

The Value Creation Analysis helps to identify value creation opportunities and prioritize current activities. It is usually done by focusing on one Role or Participant at a time. After all, no one person really administers or manages an entire network or system. What we really manage in our Roles in different networks are our inputs and outputs. So, from a practical standpoint we find the focus on the individual Role or Participant is very useful. It helps people better understand their Roles and identify high-leverage value creating activities. For ways to understand value creation at the network level see the section on Advanced Analyses in the Help Library.

When to do it

The Value Creation Analysis should be conducted after completion of the value network map and after an initial Exchange Analysis. It can be done either before or after an Impact Analysis, or any time you are ready to focus on the value being provided by individual Roles or Participants. If you do it before the Impact Analysis then you still need to be sure that you have some way to assess the transaction-level Perceived Value of the Receivers - which is usually done as part of the Impact Analysis.

The Value Creation Analysis requires that:

- All Roles and Participants have been identified.
- All Transactions and Deliverables have been defined.
- Sequencing or other validation is complete.

- An individual Role or Participant has been identified for the analysis.

Methods

- Facilitated workshops with all involved Roles or Participants to initiate group conversations, generate questions, and develop insights
- Spreadsheet analysis and judgment of patterns
- Reports generated with the ValueNetworks.com™ application

Displaying data

Use a table or spreadsheet to organization your data. A suggested format is in the example below. The table can be customized for any financial and non-financial scorecard.

The example below is based on the Intangible Asset Monitor (IAM) of Karl-Erik Sveiby, which has the non-financial asset categories of Human Competence, Internal Structure, and Business Relationships. For example, receiving a particular knowledge input may increase Human Competency, with a measurable gain for that category of Intangible Asset. Conversely the skill required to process the input may place time demands on certain categories of skilled people, which has both a financial cost and an intangible opportunity cost as skilled people are not able to be deployed elsewhere.

It is easy to include here how the receiving Role perceives the value of the output. See the topic Perceived Value in the Help Library.

This is also a good place to assess the overall effect of your value outputs in terms of Industry, Social Citizenship, and the Environment. The last two categories in particular are becoming increasingly important. Value network strategies often include transactions that are designed to improve performance of network Roles or the network as a whole. Are the value outputs viewed as positive contributions or innovations for your industry? What is the effect of the value outputs on society – do they contribute to a more hopeful future and an increase in social good? What is the environmental footprint of a particular value output?

So while the Impact Analysis focused on the internal impact of an input, Value Creation Analysis seeks to understand the external impact of the value output. The first level of impact is to the direct recipient (which is assessed in Perceived Value). The second level of impact is to indirect recipient of the output: Industry, Society and the Environment.

Example A - Simple Version

This is a simplified version of the analysis that is used in the Excel template for uploading data into the ValueNetworks.com application. This configuration can be used for both the Impact Analysis and Value Creation Analysis. In the case of the Value Creation Analysis the “Receiver” in the Asset Management section is the Role receiving the value output.

Standard Value Network (Role Based)				Asset Management		Brand Management	
From Role (required)	To Role (required)	Deliverable (required)	Nature of Deliverable (required)	Asset Type	Asset Impact (for Receiver)	Perceived Value of Deliverable for Sender	Perceived Value of Deliverable for Receiver
			Tangible Intangible	Financial Business Relationships Competence Structure	Cost Benefit	Unknown Very Negative Negative Neutral Low Medium High	Unknown Very Negative Negative Neutral Low Medium High

Example B - Full Version

This is the full or classic version of the Value Creation Analysis that is used on more advanced projects.

Transactions				Activity	Value Creation Analysis					
Deliverable	Nature (Tangible/Intangible)	From	To	From Impact Analysis (optional)	Tangible Assets	Tangible Risk	Intangible Assets	How we Add Value	Overall Combined Cost/Risk	Overall Benefit

This is an even finer level of detail:

Value Creation Analysis (Detail)										
Tangible Assets Utilization 2 = High 1 = Med 0 = Low	What are the Tangible costs? (financial and physical resources)	Intangible Asset Utilization Human Competence (HC) Internal Structures (IC) Business Relationships (BC) 2 = High 1 = Med 0 = Low			What are other Tangible or Intangible Costs or Benefits? (Industry, Society Environment)			How can we add, enhance, or extend value in regard to this deliverable?	What is the overall combined Cost/Risk of providing this output? 2 = High 1 = Med 0 = Low	What is the overall Benefit of providing this output? 2 = High 1 = Med 0 = Low
		HC	IC	BR	Ind	Soc	Env			

Consider having the “whole network” represent the Receiver. See what this brings up for people in terms of value outputs for the network itself as an economic unit. Work the question of whether a benefit or value really extends to the whole network or to only a few.

What to ask or observe

The Value Creation Analysis explores several dimensions of value creation. It not only considers the sources of value and the assets that we have to work with – it also helps assess how we create value and how it impacts others.

1. Asset utilization is the first dimension of the Value Creation Analysis. How well is the Role leveraging financial and non-financial assets to create this value output? The indicators used for this determination can be as simple as a three-point high/medium/low subjective value such as:

High – we are leveraging or utilizing this asset very well to create this output.

Medium – we are utilizing this asset to an average degree.

Low – we are utilizing this asset poorly or not at all.

Or they can be much more involved and extend to hard indicators such as financial costs, person-hours required, equipment costs or system demands, efficiency factors around speed and quality, and external infrastructure required or partnerships costs.

2. Value Conversion is the second dimension for addressing how we turn our assets into value outputs. Converting value is achieved converting one type of value input to another kind of value as an output.

Example: If a Role receives an item of competitive intelligence (an Intangible knowledge input) from another Role, what could they do to convert that into a value output? If the Role receives the intelligence as an Intangible they could repackage it and publish an industry analysis to sell as a product. Or, conversely, if they purchase the competitive intelligence as a Tangible, then they could convert that into Intangible value by providing it at no cost for a colleague or strategic partner.

3. Value Enhancements. The third dimension considers what specific value enhancements or value features do we create or add that makes this value output unique?

- *Adding value by enhancing the basic input.* In the same example the Role could add value by contributing additional insights to the competitive intelligence.
- *Extending value to others in the network.* In the same example the Role could extend the value of the competitive intelligence by making it available for other value network Roles to access. It would remain an Intangible Deliverable but the value is enhanced by being provided to others.

4. Perceived Value for the Receiver. How highly does the Role receiving the output actually value it? Perceived Value could simply be a high/medium/low assessment on the part of the Role or Participant who receives the value input. If everyone in the network has completed an Impact Analysis then that would provide the most accurate data. If for some reason that has not been completed or is not possible to do, then whoever is doing the Value Creation Analysis can simply estimate the Perceived Value. Needless to say, at some point there would need to be a reality check as to whether you have guessed correctly!

Comparing the costs or asset utilization factor to the Perceived Value of the output can help evaluate investment decisions or value creation strategies. Whenever we provide value we are looking for both the highest possible value for the Receiver and the highest possible benefit for ourselves – for the lowest possible cost.

5. Social Value is the fifth dimension of value. This looks at the value (or negative value in terms of costs) that these outputs hold for Industry, for Society, and for the Environment. In other words it assesses what accrues to *indirect* Receivers of the value outputs.

What to look for

- How is this Role creating value? Value outputs can be either Tangible or Intangible.
- What are the core value creating activities for this Role?
- What specific value outputs do they generate and provide to other Roles?
- Are there adequate resources to achieve the outputs? How well are those assets being utilized to create value?
- Are there variables or resource constraints that are impacting a Role's ability to create value?
- How quickly and efficiently does the Role add, extend, or convert value? In other words what is the speed of value creation? (See the User's Guide for the ValueNetworks.com™ application Section 5 Animation for how transactions speed can be animated.)
- What is the Cost/Benefit for our own company to provide this output?
- What is the Cost/Benefit to Industry, Society, and the Environment?

Analysis

What type of value (Tangible or Intangible) does each participant contribute to the value network?

Is it possible to create more value outputs utilizing the same assets?

Does each Role have adequate inputs and resources to achieve value outputs and convert one type of value to another?

How quickly is a Role creating value?

What variables, properties, or constraints might be affecting a Role's ability to create or add value?

Intangible value is relatively easy to generate when there are good pathways for sharing knowledge. How could Intangible Assets be better used to create value outputs?

Every Role must have sufficient inputs to achieve its outputs.

Value creation rates can be measured by how long it takes to convert inputs into value outputs. Utilization metrics can include a time factor from input to output.

Variables in composition or attributes of the Roles can affect outputs or their ability to convert value exchanges. There may also be structural or cultural constraints.

Combining Impact Analysis and Value Creation Analysis

By comparing inputs (the Impact Analysis) to outputs (the Value Creation Analysis) a number of interesting value creation questions can be addressed:

Are the Roles actually creating and adding value – or merely extending it?

Roles convert inputs to value outputs, but not every output represents value creation. For example, if the content or form of a knowledge output does not change when it moves through a Role, then probably little or no value is being added. It may simply be an information flow. In that case, the Role is extending a value output to others but is not actually creating or adding value.

Is there a disconnect around how the value outputs are actually perceived by the Sender and the Receiver?

Sometimes people think the Receiver puts a high value on what they are providing, but the Receiver may view it much differently. One person's output is another's input. Do the Sender and the Receiver perceive value the same way? Overall is this Role providing positive, negative, or neutral value for the other Roles?

Does this Role appear to have a high level of value conversion where the types of inputs are considerably different from the types of outputs?

This question sometimes leads people to discover they may be receiving a lot of Intangible inputs such as knowledge, yet are not converting them into Tangible product offerings or services. Both types of value in a value network can be converted into the other type of value.

(Example: converting a knowledge Intangible to another type of Intangible □ such as when Sun Microsystems gave away Java technology knowledge to gain customer loyalty.)

Are there apparent discontinuities where value inputs seem to have little or no correlation to value outputs?

When there are apparent discontinuities or mismatches between value inputs and outputs it may indicate that the value has been converted from one type of value to another. Sometimes however, discontinuities reveal lost value opportunities where a value input is inadequately leveraged or maximized.

How does the value conversion rate compare to corporate growth and profitability?

Knowledge is the asset that is easiest both to grow and to convert to other types of value □ so systems that generate high value should have correlating high growth and conversion rates for knowledge and other Intangibles.