CPV Triangle

TEACHER OVERVIEW THE ART OF TRANSACTIONS

At the heart of everything we do as entrepreneurs, business professionals, or whatever roles we play in society, is the world of voluntary exchange. We make hundreds of them every week. Some involve currency or the exchange of goods, yet others involve exchange of behaviors or actions.

Key to our understanding of and ability to engage in markets is our ability to create win-win. To have a better understanding of win-win, we must learn to create value on both sides of an exchange.

By creating value on both sides, we have the opportunity to create "Raving-Fan Customers", Gung-Ho Employees" and long-term "Financial Success", leading to prosperity for ourselves, our families and our communities.

So, the CPV helps us break down and examine mutually beneficial trade or voluntary exchange, giving us a mental model from which to build upon, as we make marketplace decisions in the heat of taking-action.

This document serves as an introduction to elements of the CPV Triangle, but you may wish to add or delete elements for your classroom needs.

LEFT SIDE OF THE TRIANGLE

*C is Cost *P is Profit

- Left-side correlates to "Pricing & Profit".
- Price – COGS = Profit (Seller's Profit)
- Students like some business owners typically focus here. "I want to make money for me…therefore I must raise price or cut costs." They are seeing only ½ the picture.

Items for discussion with students in-regards to price:

- What are the effects of raising price? What should you consider when changing price?
- What role does pricing strategy play in an exchange?
- Can pricing strategy increase value?

Typical student responses to cutting costs:

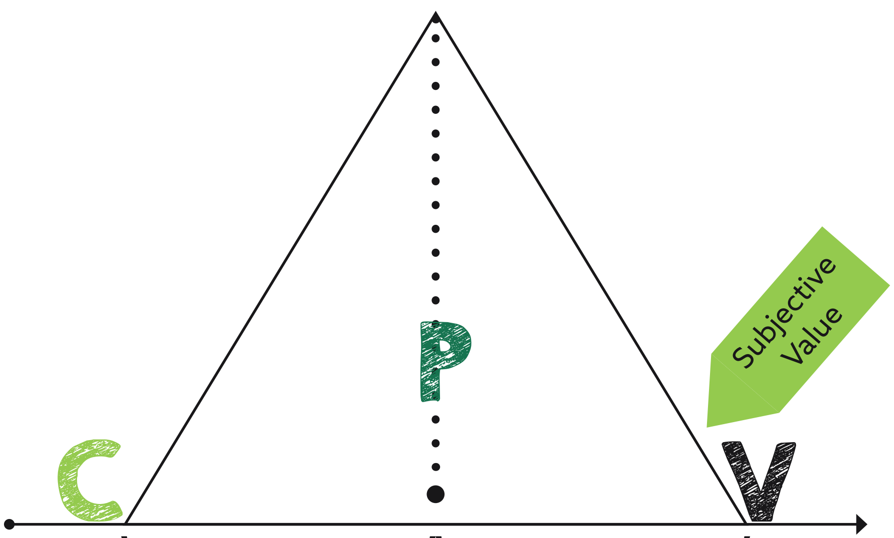
- Lower quality, cut staff, downsize, change suppliers, buy in bulk-quantity, share space (lower overhead), cut advertising costs, outsource, go green (?)…

Items for discussion with students in-regards to cost:

- What are the effects of cutting costs? What should you consider when cutting costs?
- Are there limits to cutting costs? (This is why the bottom left of the CPV Triangle extends to the left of the triangle, ending without an arrow, there is a limit to cutting costs.) Note: It is important to point out that some costs are good. If we lower quality in a way that reduces costs & value it represents bad cost cutting – value is not created on both sides. Customer-focused entrepreneurs find ways to cut costs that also increase value. (M&M/Mars & baby carrots examples below.)

Price is represented by a pendulum as price fluctuates based on market conditions and seller's pricing decisions.

Price allocates profit in an exchange.



RIGHT SIDE OF THE TRIANGLE

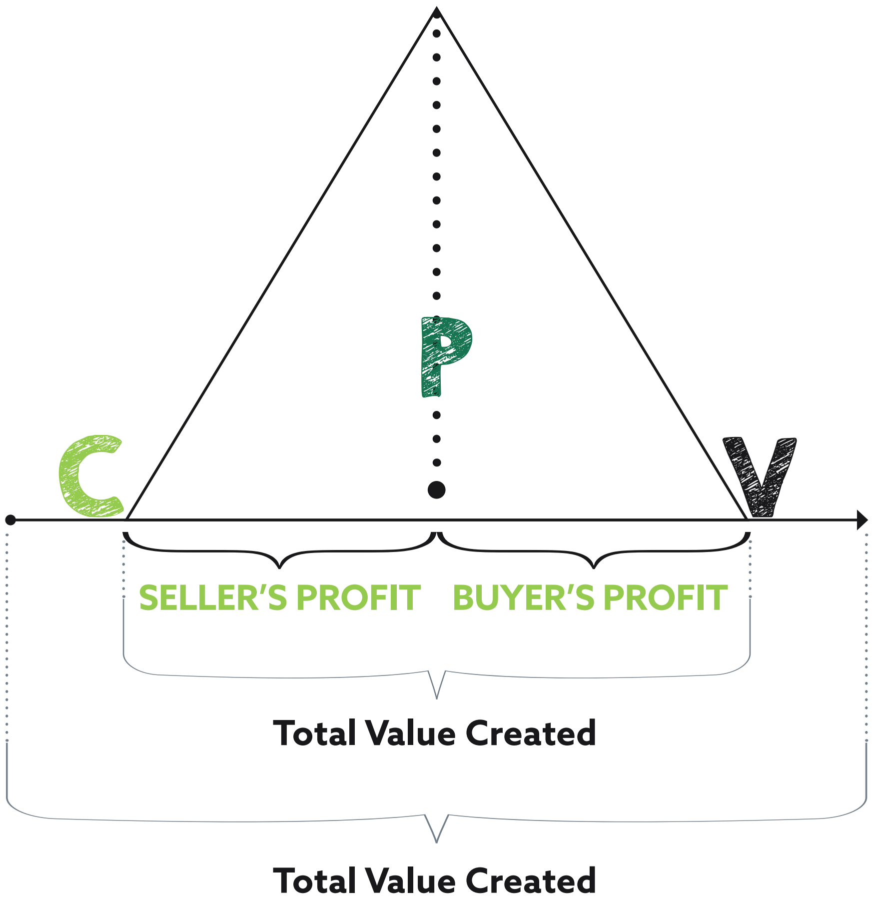
*V is for Value

- Value – Price = Profit (Buyer's Profit)
- Developing a customer focused mindset and understanding of value creation is key to long-term success.
- Shifting mindset to (right), Customer Focus.

Items for discussion with students in-regards to value:

- Value represents the value a particular buyer or trade partner places on a product, service, or benefit.
- Value is Subjective, i.e. subjective value
- It is very important for students to understand that we trade for things we value more than price. Both parties benefit in an exchange when value is created.
- Our ability to create value in the market is key. What does value creation look like?
- Factors influencing value may include:
  - Day, Time, Environment, History, Culture, Experience, Trust, Circumstances and Customer Preferences.
  - Quality, Added Services, R&D, Innovation, Location, Channels, Customer Relationships, Marketing & Promotion, Pricing, Geographic's, Psychographics, Payment Options, Branding....
  - Foundational Values, Compliance, Principled Entrepreneurship.

*On BMC think Value Proposition



The Big Picture – Looking at the whole transaction.

- When we create value (profit for the buyer and seller) in a transaction, we create win-win. This is good profit.

Can this good profit create even more value?

- The answer is yes! Reducing waste (costs) in a way that creates value for the buyer and seller increases the total value created in an exchange.
  - This is best illustrated by stories of M&M-Mars and Mike Yurosek. Imagine a world with M&M's, Snickers...... imagine a world without baby carrots!

FOOD FOR THOUGHT & WRAP-UP

- One of the powers of a classroom market and implementing currency and auctions is intentionally calling transactions into focus for students to examine, not only the individual transactions that occur and the behavior of others in the market, but their own behaviors. The market is where behavior interacts with mindset.
- The best way for students to begin to develop and change mindset is by experiencing the market and learning from the teachable moments that present themselves. For example, in the Trading Game, when a student coerces or cheats their trade partner, students begin to see the market consequences, that while the student may have realized some short-term gain, the long-term consequence is that others will no longer trade with them. Students will also begin to draw connections beyond the classroom market to the world around them.
- In YE, we say entrepreneurship is "solving problems for profit". The CPV Triangle helps us solve problems by framing what value creation looks like at its most basic level.
- Adding value in all transactions whether in business or in life give us personally and professionally a foundation from which we can prosper individually, for our family and for society.
- CPV connects to the BMC. The right-side of the CPV connects directly to the upper-right "Customer Focus" segment of the BMC, as well as to Key Resources, like our relationships with employees and partners. The left-side of the triangle relates directly to the BMC's Cost Structure and Revenue Streams (COGS and Pricing & Profit).
- Are cutting costs and creating value in competition, or can we both cut costs and create value at the same time? The answer is, yes. Two great examples of this value creation are M&M-Mars and the baby carrot. First M&M-Mars a company that consistently gained market share by making decisions that created value on both sides (win-win).
  - They cut costs through innovation, developing nougat (chocolate mixed with air). Introducing nougat as a key ingredient along with other ingredients such as peanuts, cookie wafer, caramel and so on (all cheaper than chocolate), they cut the costs to produce a candy bar, while creating a candy bars like Snickers that have become the best-selling in the industry.
  - They cut production costs by introducing extrusion (ingredients push through a tube) as a manufacturing technique and crimped plastic packaging, instead of the old method used by competitors of using molds and foil packaging. This cut costs while increasing value as customer loved the mix of ingredients.
  - They cut advertising costs by advertising on Saturday mornings (cartoons), while competitors were advertising in prime time, as well as by introducing impulse sales to the market. They positioned their products at check-out increasing the convenience for customers, while competitors were placing their products on the food aisles.

FOOD FOR THOUGHT & WRAP-UP CON'T

> The story of Mike Yurosek and baby carrots:
- Mike was a carrot farmer in Bakersfield, California. Mike grew carrots and sold them to the local supermarkets. As you can imagine not every carrot grown is perfect, many are not that perfect Bugs Bunny carrot consumers want. The supermarkets only wanted his nice-looking carrots, so he had a lot of waste – to many carrots that he couldn't sell because they didn't pass the eye test.
- One day Mike had an idea, what if he created a process to take the "ugly" carrots and have them cut into many smaller nice-looking carrots. When Mike took these baby carrots to the supermarkets they loved them and so did consumers. Mike's innovation reduced waste – lowering his costs, while increasing the worlds value of carrots. Not only could he sell more carrots, but he could sell these high-demand baby carrots at a higher price, increasing his profit margin. The supermarket owners loved the increased sales, and the world loved the increased value they received; snacking on baby carrots and putting them in their lunch boxes.

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