

Business Performance Management

Part 8

Value Add and Local Content

Value Add

$$PR = GMP - CPO$$

Fixed, for example determined by a reseller discount

Value Add

$$PR = GMP + VAP - CPO'$$

Increasing gross margin percentage by providing value add

$$VAP = \frac{VA}{OI}$$

Value Add Percentage
“local content”

Value Add: Services, engineering or other value contributions provided and charged to customers as part of the orders with $GMP = 1$

Value Add

$$PR = GMP + VAP - CPO'$$

Increasing gross margin percentage by providing value add

Value Add is provided by headcount HC_{VA} ,
for example service technicians, project engineers, *etc.*

HC_{VA}

Headcount "Value Add"

$$HCP_{VA} = \frac{HC_{VA}}{HC}$$

Percentage of Headcount
providing "Value Add"

Value Add

$$PR_{VA} = \frac{VA_{HCVA}}{EXP_{HC}} - 1$$

Profitability Value Add

Value Add per HC_{VA}

$$VA_{HCVA} = (1 + PR_{VA}) EXP_{HC}$$

Break-even

$$VA_{HCVA(B-E)} = EXP_{HC}$$

Hourly Rate

$$VA_{HR} = \frac{EXP_{HC}}{HR_{eff}} (1 + PR_{VA})$$

Value Add

Plan

$EXP_{HC} = 100 \text{ k\$}$, $PR_{VA} = 10\%$

Value Add per HC: $VA_{HCVA} = 100 \text{ k\$} * 1.1$

k\$ 110 /yr

Break-Even

Value Add per HC (B-E) $VA_{HCVA} = EXP_{HC}$

k\$ 100 /yr

Hourly Rate

$VA_{HCVA} = 110 \text{ k\$}$, $HR_{eff} = 1500 \text{ h}$

Hourly Rate $HR_{VA} = 110 \text{ k\$} / 1500 \text{ h}$

\$ 73 \$/h

Summary of Key Ratios

Value Add
Percentage

$$VAP = \frac{VA}{OI}$$

Value Add per
Headcount VA

$$VA_{HCVA} = EXP_{HC}(1 + PR_{VA})$$

Value Add
Profitability

$$PR_{VA} = \frac{VA_{HCVA}}{EXP_{HC}} - 1$$