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Exercises in Economic Value to the Consumer (EVC)

This exercise set focuses on Economic Value to the Consumer (EVC)—a framework for calculating the maximum price a fully informed customer would be willing to pay for a product. The exercises consist of eight problems, each targeting a distinct dimension of differentiation value.

An introductory section explains the EVC framework and provides a worked example. After reviewing these sections, you should then work through the exercises, which increase in complexity. Before you begin the exercises, imagine you are an advisor to a client company that is looking to you to understand the maximum price it can charge for a new product.

What Is EVC?

Economic Value to the Consumer is the maximum amount a customer should be willing to pay for a product, *assuming she is fully informed* about its benefits relative to those of competitors. It is defined as:

$$\text{EVC} = \text{Reference Value} + \text{Differentiation Value}$$

Reference value is the price of the next best alternative (NBA)—the closest substitute the customer believes is available. It forms the baseline for the EVC calculation. Note that the NBA is defined from the customer's perspective, not the seller's, and may vary across customer segments.

Differentiation value is the dollar value of every way in which the product being evaluated differs from the NBA. It can be positive (the product offers more) or negative (the product offers less). Differentiation value is typically calculated over the full lifetime of the product (or the rental/use period). Sellers should be careful to be unbiased when estimating differentiation value—customers will always scrutinize and push back on these claims.

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