

COMM1180

Value Creation

Comprehensive Course Notes

UNSW Business School | Term 3 2023

Course Overview

COMM1180 Value Creation integrates finance, marketing, information systems, and management accounting to explain how organisations create, communicate, deliver, and capture value.

Module 1 (Weeks 1-3): Purpose of business, marketing strategy, IS/IT strategy.

Module 2 (Weeks 4-5): Time value of money, equity valuation, bonds.

Module 3 (Weeks 6-7): Pricing, CVP analysis, capital budgeting and investment rules.

Module 4 (Weeks 8-9): Risk, return, CAPM, WACC, and DCF firm valuation.

WEEK 1: Introduction to Value, Value Creation, and the Purpose of Business

1.1 What is Value?

Value is an abstract concept describing the benefit something holds for at least one person or group. That benefit may be financial and expressible in dollar terms, or non-financial, encompassing entertainment, satisfaction, freedom, social connection, or personal meaning. Value is not intrinsic to an object; it is relational, arising from the interaction between an object or action and a person with particular preferences and circumstances. The same item can be prized by one person and worthless to another.

For a business, value creation means generating something that benefits others at a cost less than the benefit produced. This gap between cost of production and benefit received is the economic surplus that can be shared between the firm and its stakeholders. Understanding where value comes from, who receives it, and how it is measured is the central task of COMM1180.

1.2 The Three C-Suite Perspectives on Value Creation

Chief Financial Officer (CFO)

The CFO is responsible for leading both the finance and accounting functions. The finance side covers two primary decisions: investment decisions (capital budgeting: which projects and assets the firm should acquire) and financing decisions (how to raise capital and return it to investors). The accounting side facilitates and influences strategy through external reporting, performance measurement, and internal control.

Management accounting has two roles: decision-facilitating (ensuring decision-makers have the right information for pricing and CVP decisions) and decision-influencing (motivating organisationally desirable decisions through performance metrics and incentive design). Financial accounting provides information to external users such as shareholders, regulators, and creditors.

Chief Marketing Officer (CMO)

Marketing is the process by which organisations engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return. It is the link between the organisation and its external stakeholders and serves as the primary revenue generator. Marketing identifies customer needs and provides products and services that fulfil those needs, building value for the organisation through revenue, information, and brand equity.

Chief Information Officer (CIO)

Information Technology (IT) encompasses hardware, software, and telecommunications. Information Systems (IS) encompasses the means by which people and organisations gather, process, store, use, and disseminate information. IS is about the purposeful utilisation of IT; IT alone has no inherent business value. The CIO must identify where IS/IT can create value, educate stakeholders on IS/IT's strategic role, and build conditions under which IS/IT generates competitive advantage.

1.3 Porter's Value Chain Framework

The value chain framework views an organisation as a sequential series of value-creating activities, from inbound logistics through to post-sale service. It helps managers understand how products move from raw materials to the end customer, the total costs at each stage, and which activities add value versus which consume resources without creating customer value. Organisations earn a margin (profit) when the price customers pay exceeds the total cost of all value-chain activities combined.

Primary Activities

Activity	Description and Value Assessment
Inbound Logistics	Receiving, storing, and distributing raw material inputs. Assessed by storage/distribution efficiency, facility proximity, and supplier relationship quality.
Operations	Transforming inputs into the final product or service. Assessed by production efficiency, quality consistency, and cost management.
Outbound Logistics	Collecting, storing, and distributing finished products to customers. Assessed by delivery speed, accuracy, and cost-efficiency.
Marketing and Sales	Making customers aware of products and inducing purchase. Assessed by targeting accuracy, reach, and return on marketing investment.
Service	After-sale activities that maintain or enhance product value. Assessed by response speed, resolution quality, and customer satisfaction outcomes.

Support Activities

Activity	Description
Procurement	Acquiring inputs for all primary and support activities; quality of supplier relationships; input quality management.
Technological Development	R&D and innovation; improving products, processes, and information systems that feed into primary activities.
Human Resource Management	Recruiting, training, developing, and compensating employees across all functions.
Firm Infrastructure	Planning, finance, quality control, legal, and information management that coordinate the entire value chain.

Value Chain Linkages: Key Principle

Value chain activities are interdependent. Managing these interdependencies is essential: (1) Changes in one activity affect all others - iPhone R&D requires input from marketing, procurement, HR, and firm infrastructure simultaneously. (2) Activities affect external stakeholders - a procurement decision affects suppliers, customers, and the environment. (3) Resource implications - does the value created for customers exceed the cost of production? Only when yes does the activity justify continuation.

1.4 The Purpose of Business: Competing Frameworks

Shareholder Value Maximisation (Friedman, 1970)

Milton Friedman's 'The Social Responsibility of Business Is to Increase Its Profits' articulates the most influential version of shareholder primacy. Friedman's argument rests on agency theory: managers are agents of shareholders and owe a fiduciary duty exclusively to shareholder interests. Spending shareholder capital on social causes is an unauthorised redistribution of private wealth, equivalent to levying a tax without democratic authority.

Friedman's doctrine has three implicit assumptions: (1) there is a democratic society with enforceable laws; (2) there is an independent judiciary; and (3) the legislature is not captured by special interests. When these conditions fail, as in regulatory capture, lobbying-dominated politics, or weak rule of law, the market mechanism cannot contain corporate misconduct, and Friedman's framework breaks down.

SVM: Advantages and Disadvantages

Advantages: Profit is a single quantifiable number; easy to understand; clear basis for executive compensation; aligns management with investor interests.

Disadvantages: Leads to 'errors of omission' where firms fail to act because effects on profits cannot be quantified; incentivises short-termism; ignores long-run stakeholder effects; impossible to forecast profitability for most projects and actions.

Corporate Social Responsibility (CSR)

CSR emerged in the 1960s as a response to inadequacies of pure profit-maximising capitalism. A working definition is 'international private business self-regulation of harms and public good'. CSR has multiple dimensions: intent (genuine vs greenwashing), motivation (intrinsic vs extrinsic), relevance to core operations, proactivity (reactive to scandal vs proactive), origin (top-down vs bottom-up), and value proposition (redistributing value vs creating new value).

The rationale for CSR has two categories. Intrinsic motivation includes moral and ethical obligations and environmental sustainability. Extrinsic motivation includes the licence to operate (governments can change laws that restrict corporate freedom if firms behave irresponsibly) and reputation management (negative public perceptions translate into lower revenue and talent retention difficulties).

Creating Shared Value (Porter and Kramer)

Creating Shared Value (CSV) reconceives the relationship between business and society. Rather than treating social value creation as a cost or redistribution of profit, CSV holds that businesses can generate competitive advantage by creating value for society simultaneously with commercial returns. The three pathways are: reconceiving products and markets; redefining productivity in the value chain; and building supportive industry clusters at the firm's locations.

Pieconomics (Alex Edmans)

Pieconomics, from Alex Edmans' 'Grow the Pie', argues that firms should create value for society first, with profits following naturally. The 'growing the pie' metaphor contrasts with 'pie-splitting' SVM, where value is merely redistributed from other stakeholders to shareholders. A pieconomics firm starts with a meaningful purpose, then creates genuine value that benefits stakeholders and shareholders simultaneously.

Three Conditions for Pieconomics

1. Multiplication of social benefits: does each dollar of private cost create more than one dollar of future social benefit?
2. Comparative advantage: does the firm generate more social benefit per dollar than any other entity could?
3. Materiality: does the activity benefit a material group of stakeholders?

Example - community volunteering days: SVM says unprovable effect on profits.
 Pieconomics: (1) likely yes - well-run charities multiply social value; (2) probably not - professional tradespeople build houses more efficiently; (3) yes - local community benefits are material for brand and employee engagement.

1.5 Shareholders, Stakeholders, and the Accounting Lens

Shareholders are the residual claimants of the firm, receiving net income after all other obligations are met. Net income accrues to shareholders and, if distributed, flows as dividends. Today's share price reflects the present value of all expected future cash flows to shareholders; higher profits mean higher expected dividends, which mean higher prices today.

Traditional financial accounting focuses on shareholder value (revenue, cost, profit). Contemporary management accounting provides both financial and non-financial measures to capture value for all stakeholders. Integrated Reporting frameworks require firms to disclose how their operations increase or decrease six types of capital over time: financial, manufactured, intellectual, human, social/relational, and natural capital.

Framework	Key Features and Limitations
SVM	Single metric (profit); clear basis for compensation; errors of omission; short-termism.
CSR	Self-regulation; intrinsic + extrinsic; risk of greenwashing; guiding principle 'do no harm' is too vague.
CSV	Reconceive products, value chain, and clusters; creates competitive advantage through societal benefit.
Pieconomics	Three-condition test; purpose-led; flexible but 'social value' is hard to quantify.
Triple Bottom Line	Balance financial, social, environmental; preference for measurable outcomes.
Integrated Reporting	Six capitals; holistic; requires disclosure of value creation, preservation, or erosion.

WEEK 2: Value from Market Opportunities

2.1 Value Proposition

A value proposition (VP) is the set of benefits or values that a brand promises to deliver to consumers to satisfy their needs. It differentiates one brand from another and answers the two fundamental questions at the core of any business: what value do we deliver, and who are our customers? Without a clear VP, organisations risk developing products that customers do not want and communications that fail to resonate.

Value Proposition Canvas (Osterwalder)

Customer Profile: Jobs to be done (functional, social, emotional) | Pains (obstacles and frustrations) | Gains (desired outcomes and benefits)

Value Map: Products and Services | Pain Relievers | Gain Creators

Fit: achieved when the value map precisely matches the customer profile.

Writing a VP: 'For [target customer] who [has a specific need], our [product] is [category] that [key benefit]. Unlike [alternative], our product [unique differentiator].'

VP Examples

Uber: 'Tap your phone. Get where you're headed.' Addresses the job of personal transport; pain relief = no cash, no hailing; gain = on-demand availability and price transparency.

Netflix: 'Watch anywhere, cancel anytime.' Pain relief = no fixed schedules or contracts; gain = unlimited on-demand content at low cost.

Amazon Prime: Pain relief = delivery friction; gain = speed, convenience, consolidated experience.

2.2 The Marketing Framework

Definition and Role

Marketing is the process by which organisations engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return. It is a social and managerial process through which individuals and organisations obtain what they need and want by creating and exchanging value. Marketing has evolved from a business function to a set of values and processes that all functions participate in.

Types of Value Created by Marketing

Type	Description and Example
Functional/Instrumental	Product performs a desired function or has desirable characteristics. Key in B2B markets. Example: Pfizer vaccine delivering measurable health outcomes.
Experiential/Hedonic	Creates appropriate experiences, feelings, and emotions during use. Example: restaurant atmosphere and taste; luxury hotel ambience.
Symbolic/Expressive	Customers attach psychological meaning and identity to ownership. Example: Versace clothing as status signal; flowers as love expression.

Cost/Sacrifice	Minimises transaction costs, risk, and cognitive effort. Example: Amazon free returns; frictionless checkout.
-----------------------	---

Five Stages of the Marketing Process

- Understand the marketplace: understand customer needs, wants, and demands.
- Design a customer-driven marketing strategy: select a target market and define the value proposition.
- Construct an integrated marketing programme: the 4 Ps (product, price, place, promotion).
- Build profitable customer relationships: CRM to capture and retain high-value customers.
- Capture value from customers: generate revenue, customer loyalty, and customer equity.

2.3 Segmentation, Targeting, and Positioning (STP)

Segmentation

Segmentation divides the total market into groups of current and potential customers with similar needs. Bases include: demographic (age, gender, income, education, family size); geographic (country, state, climate, population density); behavioural (usage rate, purchase occasion, benefits sought, brand loyalty); and psychographic (personality, lifestyle, values, interests). The goal is to find segments whose needs the organisation can fulfil better than competitors.

Targeting

Targeting selects the segment(s) the organisation is best positioned to serve. Criteria include market attractiveness (segment size, growth rate, profitability potential, competitive intensity) and company fit (alignment between organisational capabilities and segment needs). The chosen segment becomes the focus of the entire marketing mix.

Positioning

Positioning establishes how the brand should be perceived relative to competitors in the minds of the target segment. Effective positioning is distinctive, valued, credible, and consistently reinforced across all customer touchpoints. The positioning statement expresses the brand's unique differentiation for a specific target.

Ansoff Matrix: Strategic Options After STP

Strategy	Description
Market Penetration	Sell more existing products to existing markets. Lowest risk; leverages existing capabilities.
Market Development	Sell existing products to new markets. Moderate risk; product proven, market unknown.
Product Development	New products for existing markets. Moderate risk; customers known, product uncertain.
Diversification	New products for new markets. Highest risk; both market and product are unknown.