VALUE PROPOSITIONS:
A PATHWAY TO CREATING VALUE

Michigan Family Business Center
UM-Flint School of Management

Vince Shunsky
Corporate Planning & Consulting, LLC

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Value Creation

- Create value
  - Use capital to generate future cash flows
  - At rates of return exceeding the cost of capital
- Create more value:
  - Increase revenues
  - Deploy more capital at attractive rates of return
- Sustain strong growth and high returns on invested capital:
  - Have a well-defined competitive advantage

Should You Care?

- Creating wealth is a choice
- Many owners seek only a lifestyle – not wealth
- Many lifestyle businesses are threatened
- May need to reexamine your business model

Creating Wealth

- Sustainable revenue is a key driver of value for any enterprise
- Can only be achieved by presenting a compelling value position to your customer

What is a Value Proposition?

- The unique value your business offers to its customers
- The reason customers will want to do business with you
- The defining difference from your competitors

Types of Value Propositions

- Enterprise
  - Company culture (Harley Davidson)
- Product
  - Products manufactured and/or sold
- Service
  - Stand alone
  - In connection with a product

Price

Wal-Mart

- Always low prices
  - Save money
  - • Live better

Lowest Price

- **NAME OF THE GAME:**
  - Producing a competitive product that you can afford to sell at a lower price
- **THE RIGHT STRATEGY:**
  - Developing a manufacturing and distribution methodology that squeezes every drop of extra operational cost, or else lowest price strategy will eventually put your firm out of business.
- **EXAMPLE:**
  - Outsourcing to the lowest bidder; if your competitor is outsourcing its manufacturing to China, outsourcing your manufacturing to Vietnam, where labor costs are even lower.
- **WARNING:**
  - If a price war ensues, be the last firm standing; make sure that your firm has deep pockets in case you end up slogging through a price war.

Source: Geoffrey James BNET INSIGHT

Quality

Mercedes Benz

- Culture of innovation and excellence

Product Excellence

- **NAME OF THE GAME:** Making sure that your products are always better than the competition

- **THE RIGHT STRATEGY:** Determining, through interviews and market research, which features will cause customers to consider your product superior to the competition; building it faster than anyone else

- **EXAMPLE:** Finding the right fit; if you're launching a line of "designer" desk chairs, finding out what fabrics and leather provide a look and feels that potential buyers view as "upscale"

- **WARNING:** The "superiority" of your product may be the result of irrational human preference and your "image" (designer handbags). That makes your value proposition very vulnerable to bad publicity (like using child labor in your supply chain).

Convenience

ACE Hardware

- The helpful place
- Experts and convenience

Ease of Purchase and Use

- **NAME OF THE GAME:** Creating a hassle-free customer experience
- **THE RIGHT STRATEGY:** Figuring out why it's difficult to buy and/or use your competitor's product; make yours far easier to buy and use
- **EXAMPLE:** If your competitors are selling software the requires a complicate installation process and a corporate data center, offering the same capability as an online service
- **WARNING:** Your competitors will quickly imitate whatever you're doing.

Solutions

SAS

- The power to know
- Leader in business analytics software and services

Own Customer Results

- **NAME OF THE CAME:** Performing a strategic function inside the customer's business better than they could possible perform it themselves

- **YOUR STRATEGY:** Becoming an expert who deeply understands your customer's business; ideally, you should be an ex-employee of the companies to which you're selling

- **EXAMPLE:** Rather than selling office supplies, you become the de-facto facilities manager, ensuring that everything is always available when its needed…without the customer ever having to worry about it

- **WARNING:** The business relationship will be highly dependent upon the relationship that you have with individuals within the customer firm; if they leave, you could find yourself thrown out of the account

Value Proposition Issues

- Help the customer satisfy a need or solve a business problem
- The customer must perceive value
  - Demonstrable benefit
  - Avoidance of consequences
- Your proposition must be perceived as superior to alternatives being considered

Avoid Mistakes

- Value propositions based *solely* on product features, functions, performance, and pricing are not sustainable

- Your relationships may provide greater value

Benefits to Customers

Do we help our customers:

- Increase revenue
- Decrease costs
- Improve productivity
- Improve their quality?

Discipline of Market Leaders

- Choose your customers
- Narrow your focus
- Dominate your market
- No company can succeed today by trying to be all things to all people
- Find the unique value that you alone can deliver to a chosen market

Michael Treacy and Fred Wiersema

Value Disciplines

- Three distinct value disciplines
  - Operational excellence
  - Product leadership
  - Customer intimacy

- Each discipline produces a different kind of customer value

- Choosing one discipline to master does not mean that a company abandons the other two, only that it picks a dimension of value on which to stake its market reputation over the long term

Michael Treacy and Fred Wiersema

Operational Excellence

- Simple value proposition: low price or hassle-free service, or both
- Provide middle-of-the-market products at the best price with the least inconvenience
- Not primarily product or service innovators
- Do not cultivate deep one-to-one relationships with customers
- Wal-Mart, Costco, and Dell

Product Leadership

- *Value proposition: offer of the best product, period*
- *Offer products that push performance boundaries*
- *Do not build their positions with just one innovation; continue to innovate year after year, product cycle after product cycle*
- *Competition is not about price or customer service (though those can't be ignored)*
- *Johnson & Johnson is a product leader in the medical equipment field*
- *Nike's superior value does not reside only in its athletic footwear, but also in the comfort customers can take from knowing that whatever product they buy from Nike will represent the hottest style and technology on the market.*

Customer Intimacy

- Value proposition: the best solution for the customer, and we provide all the support needed to achieve optimum results, or value, or both, from whatever products are purchased

- Focus on delivering not what the market wants but what specific customers want

- Do not pursue one-time transactions; cultivate relationships

- Specialize in satisfying unique needs, which often only they recognize, through a close relationship with, and intimate knowledge of, the customer

- SAS provides software solutions customized to the customer

Market Leaders

Value Discipline	Basic Philosophy	Examples
Operational excellence	Low or lowest price and hassle-free service	Wal-Mart, McDonalds
Product leadership	Products that push performance boundaries	Intel, Nike, 3M
Customer intimacy	Delivering what specific customers want	Amazon, Home Depot

Market Leaders

Instead of trying to do all things well, they pick just one discipline-best price, best product, or best solution-and execute like crazy

Company Traits	Operational Excellence	Product Leadership	Customer Intimacy
Core business processes	Sharpen distribution systems and provide no-hassle service	Translate ideas into products and market them skillfully	Provide solutions and help customers improve their businesses
Business structure	Strong central authority and a finite level of empowerment	Acts in , organic, loosely-knit, ever-changing way	Pushes empowerment close to customer contact
Management systems	Operating procedures standardized	Reward innovative capacity and new product success	Measure cost of providing service and maintaining customer loyalty
Culture	Acts predictably – one size fits all	Experiments and thinks out-side of the box	Flexible and thinks have it your way

The Value of your Customer

What is the value of your customer?

- On a transaction basis
- Over the lifetime of the relationship

Does your Customer Create Value?

- Do you know what you earn on a transaction?
- Do you know what resources are consumed to serve your customer?

Understanding Costs

- What is the cost of you product or service?
- Do you know what margin is generated?
- What activities do you engage in to generate revenue?
- What resources are consumed by those activities?

Understanding Costs

- Have you considered the cost of the capital needed to support the enterprise?

- Do you recognize the real economic cost of their business?

Hindsight and Foresight

Hindsight	Foresight
Based on past events - Reactive	Future - Proactive
Historical - Trends, insights, inferences	Predictive - Uncertainty, risk management

Sign #7 you need better BI: each day your employees spend 2 hours working on work and 6 hours working on Excel

"I know the data is right, I typed it all in myself."

www.everyonemakesdecisions.com

Business Intelligence

- Moving from data to intelligence and beyond
- Understand the nature and shortcomings of traditional information used in business
- Moving from business hindsight to business insight

The Intelligence Hierarchy

Two types of software are like a brain's two halves.

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Business Intelligence

- Understand the past
- Monitor the present
- Predict the future

Important Strategic Assets

- Data –

  Beyond transactional

  Unstructured (social networks, blogs, call centers)

- Analytics-

  Providing the ability to predict and optimize outcomes

Words of Wisdom

"If you don't know where you are going, you might wind up someplace else"

L.A. Berra (Yogi)

American philosopher

Sources

Robert Slee, Private Capital Markets

Michael Treacy & Fred Wiersema, Discipline of Market Leaders

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Geoffrey James, BNET INSIGHT

Thank You

For more information contact:

Vince Shunsky

Corporate Planning & Consulting

www.corpplanconsult.com

517-455-7940

vince@corpplanconsult.com