

Strategy & Value: The Customer's Treasure Chest

by Rich Horwath

It's been said that, "One man's trash is another man's treasure." Try telling that to Mary, the woman who's been on hold for 27 minutes on the customer service line trying to get a fix for her computer that keeps crashing. Or Dr. Roberts, whose nurses have been blitzed with a flurry of patient phone calls for the past two days because of adverse reactions to a new drug he's been prescribing.

In business today, trash is trash and treasure is treasure and value is the most precious treasure of 'em all. Value is never determined in a vacuum. It needs to be exposed to the grime of competition in order to evaluate its true luster. Being able to provide greater value than the competition is what it's all about.

If it's that simple, then why aren't more companies doing it? Because they get distracted by a number of tangential but non-core value initiatives, things like customer loyalty. Customer loyalty is like a big, fat, juicy unicorn bratwurst—appealing but non-existent. The only thing a customer is loyal to is the best value—provide it and succeed or forever ride that unicorn.

The Three Value Disciplines

Research by Michael Treacy of more than 80 market leading companies demonstrated that successful companies can be categorized by one of three distinct value disciplines they pursued:

1. Operational Excellence
2. Product Leadership
3. Customer Intimacy

Treacy's research showed that successful companies choose one of the three value

disciplines to excel in and maintain industry-average thresholds in the other two. From a strategy perspective, that means that the majority of a firm's discretionary resources are allocated toward only one of the three areas. This principle flies in the face of our human disposition toward balance and equilibrium. Good strategy requires the trade-offs to load resources into one area and put only a minimal amount in the other two value disciplines.

Operational Excellence

Companies focusing on the operational excellence value discipline are characterized as having the best total cost. They provide customers with reliable offerings at competitive prices and deliver those offerings in an efficient manner. Examples of companies that have chosen to dedicate their resources to the operational excellence value discipline include Wal-Mart, Dell, Southwest Airlines, McDonalds, and FedEx to name a few. These companies realize that standardization and efficiency are the life-blood of their processes.

Product Leadership

As one would guess, product leadership is all about providing the best product—one that offers true differentiation in the marketplace. Successful product leaders produce products and services that customers recognize as being the best—offerings that add significant benefits and performance to customers.

Product leaders' primary source of competition is themselves—working fast and furiously to make their older offerings obsolete with new state-of-the-art products. Examples of product leadership companies include Nike, 3M, Sony

and Intel. They understand that they provide premium brands and more importantly, build value propositions that enable them to get paid premium prices for their brands. From a strategy perspective, the majority of their resources are allocated to their people and R&D efforts—the two primary sources of continued product superiority and innovation.

Customer Intimacy

Customer-intimate firms offer the best total solution to customers. They live on the depth and length of relationships to their customers—relationships that are built on understanding exactly what customers need and how to deliver it in a tailored fashion. These companies include the likes of IBM, GE, and Nordstroms.

The Importance of Value Discipline Focus

Not selecting and emphasizing a single value discipline results in three undesirable effects:

1. Fractured Strategic Direction
2. Weakened Brand
3. Mediocrity & Commoditization

Fractured Strategic Direction

A fractured strategic direction occurs when an organization lacks the discipline to focus the majority of its resources on just one of the three areas of value. Usually in a well-meaning but ill-conceived attempt to grow the business, their resources begin migrating to several of the value disciplines. This resource migration serves to muddy the strategic direction and compromise growth in the long term.

One example of this fractured strategic direction is the pharmaceutical company Merck and their attempt to grow by acquiring the pharmacy benefits management company Medco. As a stand-alone unit, Merck was following the product leadership value discipline. Medco had been successfully operating under the operational excellence discipline (best overall cost). While thought to be a complementary fit,

the combination of the two organizations brought together two disparate strategic paths. This depletion of focus may indeed be one of the underlying causes for Merck's recent struggles.

Weakened Brand

Aligning your group around a focus on one of the three value disciplines is a critical component of robust strategy. One of the primary challenges to alignment around a value discipline is ensuring that all of the different functional areas are “singing from the same song sheet.” This analogy is especially appropriate because not having internal groups aligned around the same value discipline is manifested in their communications to customers. It's quite common (but dead wrong) for the marketing and R&D teams to be working and promoting from the product leadership value discipline while the sales force is out selling on price. This “internal” conflict has real-world “external” effects because it blurs the value of the offering to customers and creates false expectations.

Prior to its purchase by Hewlett Packard, Compaq Computer's branding efforts centered on customer intimacy—being a solutions provider. However, this was in stark contrast to their advertising platform, 90% of which blared “low price.” Not a huge shock then why Compaq's acquisition destroyed nearly a third of HP's value.

Mediocrity & Commoditization

To generate good growth and feed the family, a farmer hops on his tractor and spreads fertilizer *evenly* across his crops. Using the farmer's technique for growing a business—spreading resources *evenly* across your opportunities—will, ironically, result in fertilizer.

Allocating resources evenly between the three value disciplines is the most insidious cause of business failure. It's not marked by heated

debate between functional groups or diametrically opposed initiatives. It simply prevents a company from realizing its true potential and condemns it to the slow and steady damnation of surviving instead of thriving. Examples of companies that have failed to choose one of the three value disciplines are plentiful in the retail sector. Firms like Sears, Kmart and JC Penney's have waddled along in the right lane for years, content to be everything to everyone, and are now choking on the exhaust of Wal-Mart and Target.

Intertwining Strategy & Value

Once the group has determined which of the three value disciplines to emphasize, the process of value engineering needs to take place. Value engineering encompasses the reallocation of investments according to the value discipline that is being used to drive success. This reallocation requires a baseline assessment of how resources are currently being allocated and in which areas they should be shifted. This step will likely meet with some internal resistance because it requires that dreaded six-letter word: change.

As resource allocation is at the heart of strategy, it's important to make sure that everyone in the group understands the strategy and why resources are being focused in one value discipline. A powerful tool in communicating this manifestation of strategy is the value proposition.

Value Proposition

The value proposition is a succinct statement describing the offering—the bundle of products and services, their attributes and position, customer experience and benefits. Correctly done, the value proposition serves as a beacon both internally and externally to convey the essence of the group's work. It provides a

compass for employees to guide everyone's work toward the same ends. The value proposition also ensures that a unified message is being delivered to customers from all of the different customer touch points in the organization.

There are seven steps in the process of developing a value proposition:

1. Identify the major attributes customers value through primary or secondary research.
2. Weight the importance of the different attributes.
3. Assess the company's and competitors' performances (ability to deliver) on the weighted customer values.
4. Further examine how customers in different segments rate the importance of the attribute and the company's performance relative to the competition.
5. Based on the analysis, write the value proposition accordingly.
6. Evaluate the proposed value proposition statement with the following criteria:
 - Relevance to customer
 - Group's ability to deliver
 - Differentiation from competition
 - Delivery on key metrics
7. Continuously monitor customer values over time to detect shifts and make modifications.

The Treasure Hunt

Today, the true treasure is value. And as with all discussions of strategy, providing value requires trade-offs—choosing one value discipline to focus on, developing a strong value proposition and targeting some customer segments and not others. Otherwise, we're just taking out the trash. □

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