

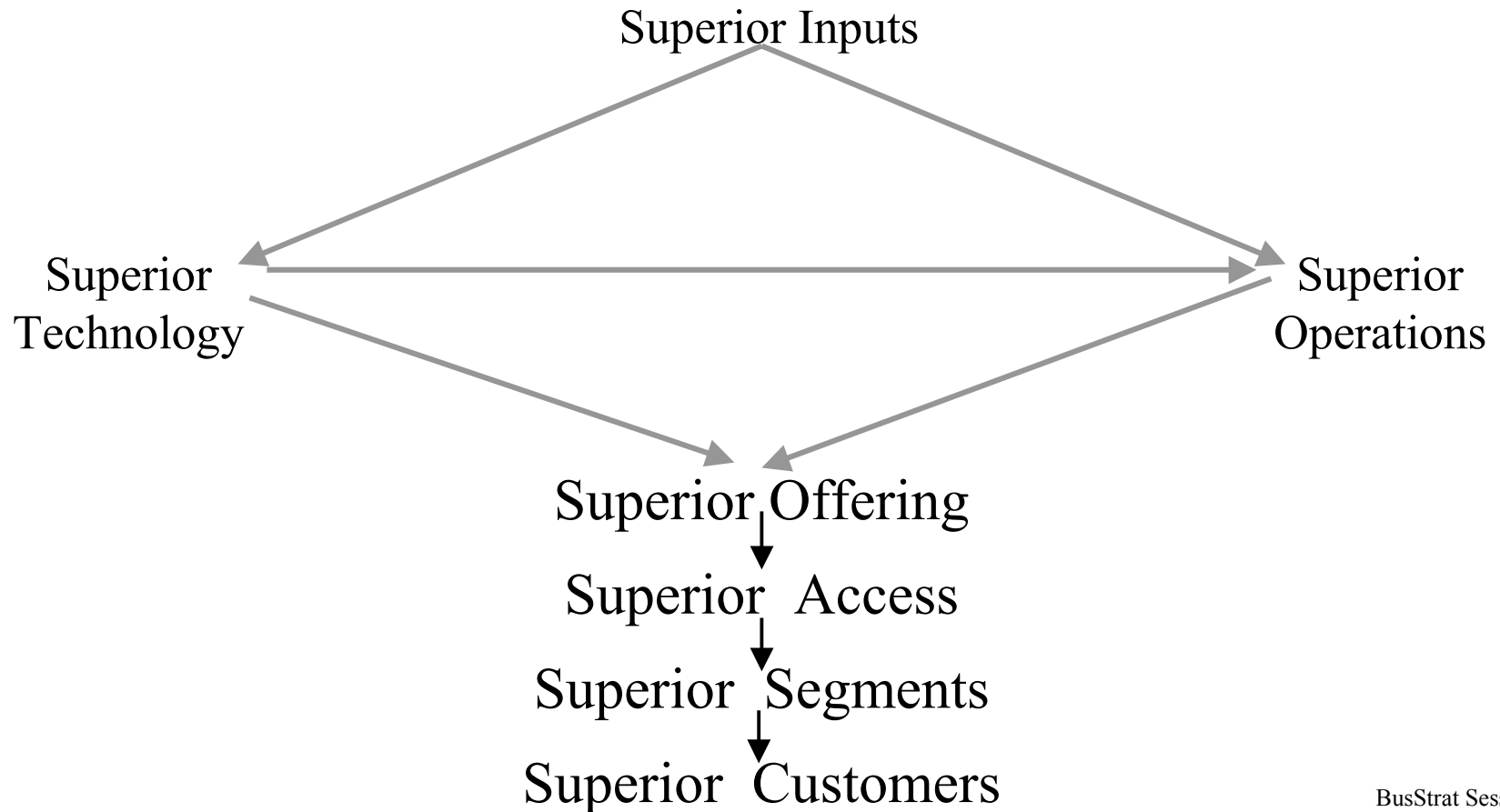
Session 5

CREATING SUPERIOR VALUE

In this session you will learn:

1. How to use your firm's sources of advantage to create superior value
2. How to calculate the value of your firm's offering through a value-in-use analysis
3. How to use research techniques that measure consumers' perceived value to create their utility function as the basis for designing offerings that create superior value
4. How to use perceptual maps to assess customer-derived perceptions of competitive offerings
5. How to use the value map to define the value positions held by competitive offerings and to define your firm's strategic direction
6. How to evaluate the offerings in the market along the commodity-specialty continuum

These are Seven Sources of Competitive Advantage



Superior Offering is the Objective of Product Strategy

This Requires Understanding of...

- How buyers perceive value
- How buyers trade off attributes
- Relative value position of competitive offerings
- The commodity-specialty continuum
- Relation of product strategy to overall strategy

Need to Know How Value is Created

VALUE IN USE

Perceived economic advantage of a product in specific application compared to the most logical substitute

PERCEIVED VALUE

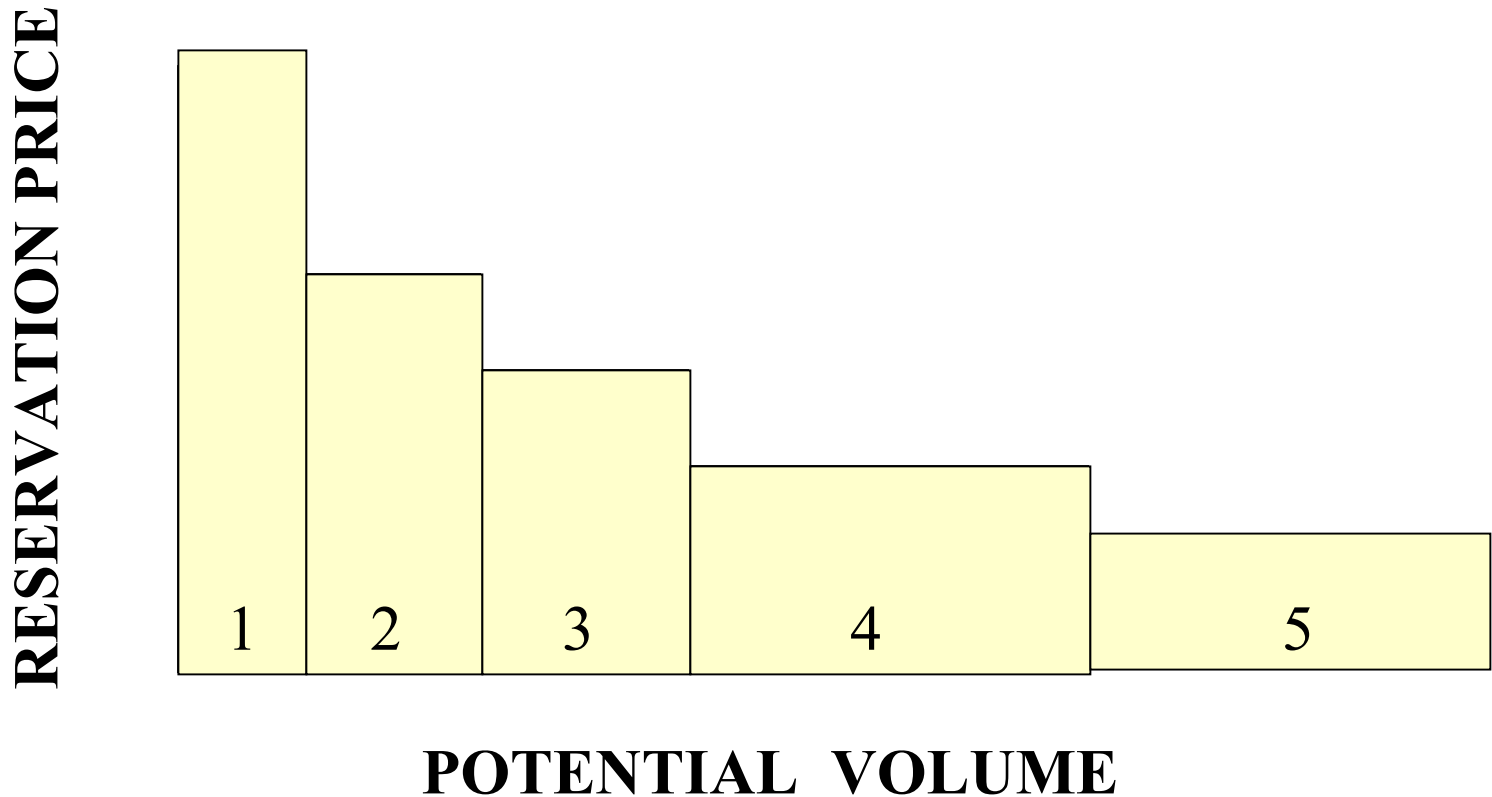
Price differential between two acceptable offerings at which buyer would be indifferent

Estimating the Customer's Utility Function

$$u = a + b_1 x_1 + b_2 x_2 + b_3 x_3 \dots \text{etc.}$$

Where x_1 to x_n represent product features or customer benefits

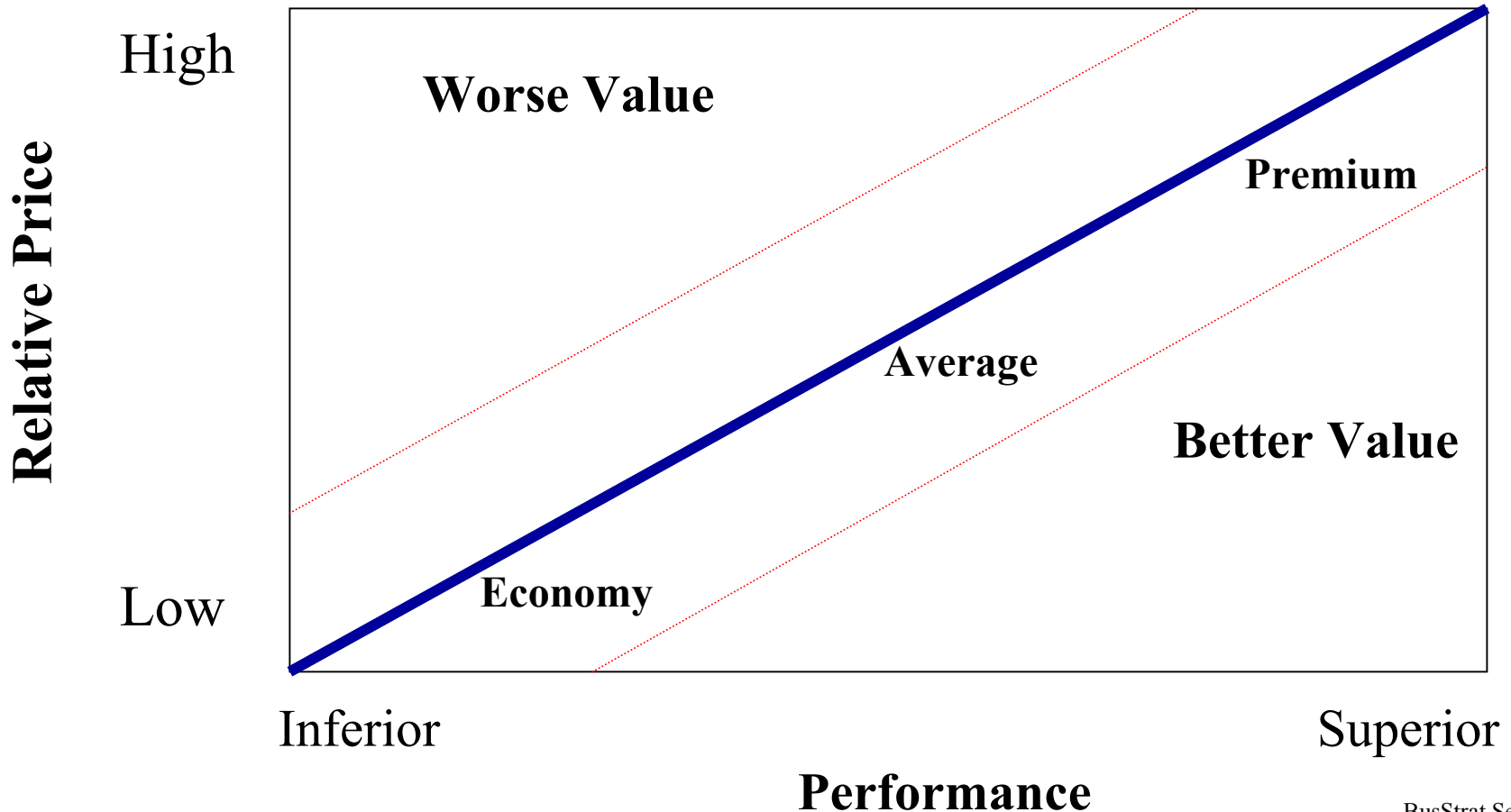
Value Is Not Same for all Users



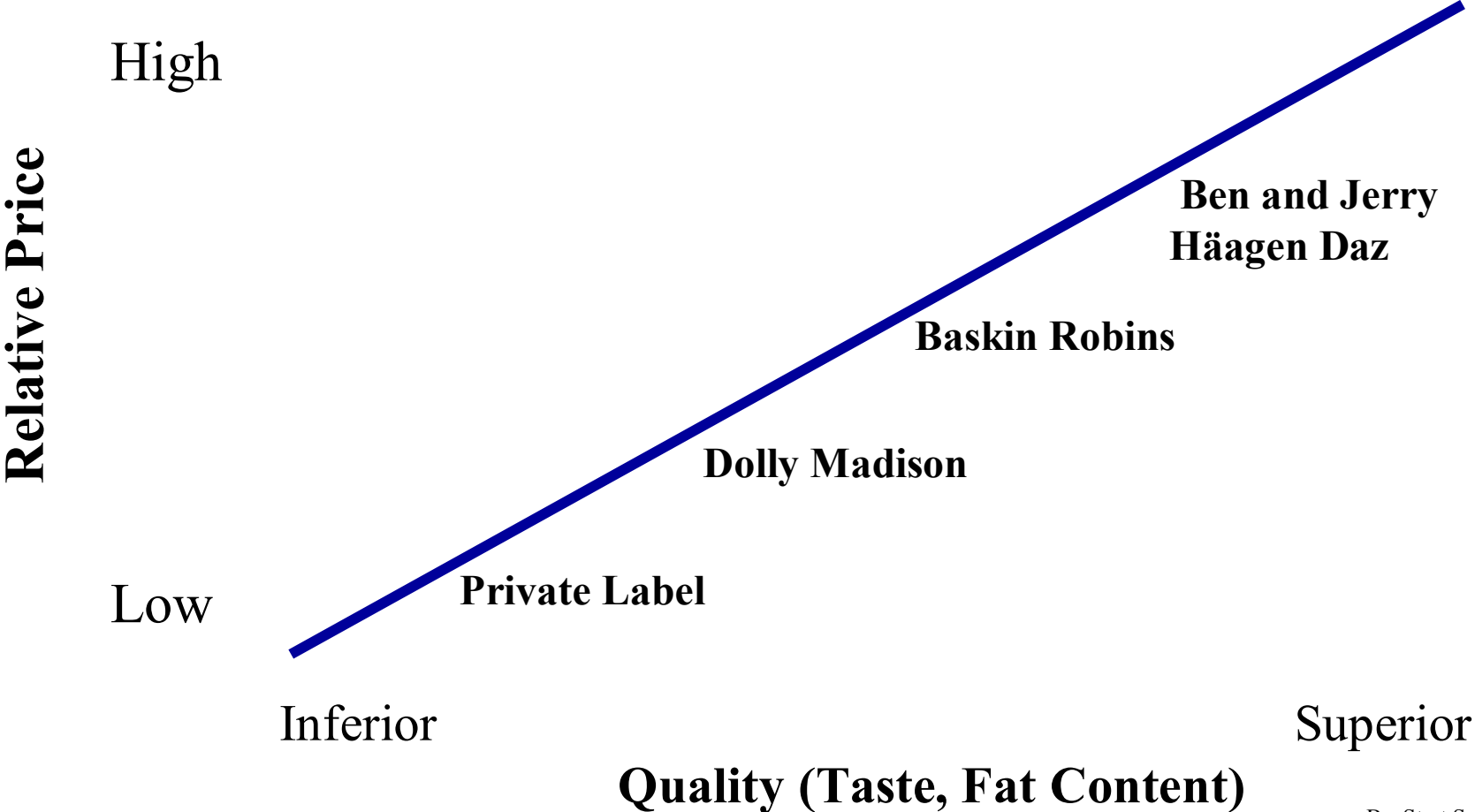
Market Segments are Defined by Different Utility Functions

- Market Driven = Benefit Segmentation
- Supply Driven = Cost to Serve Segments

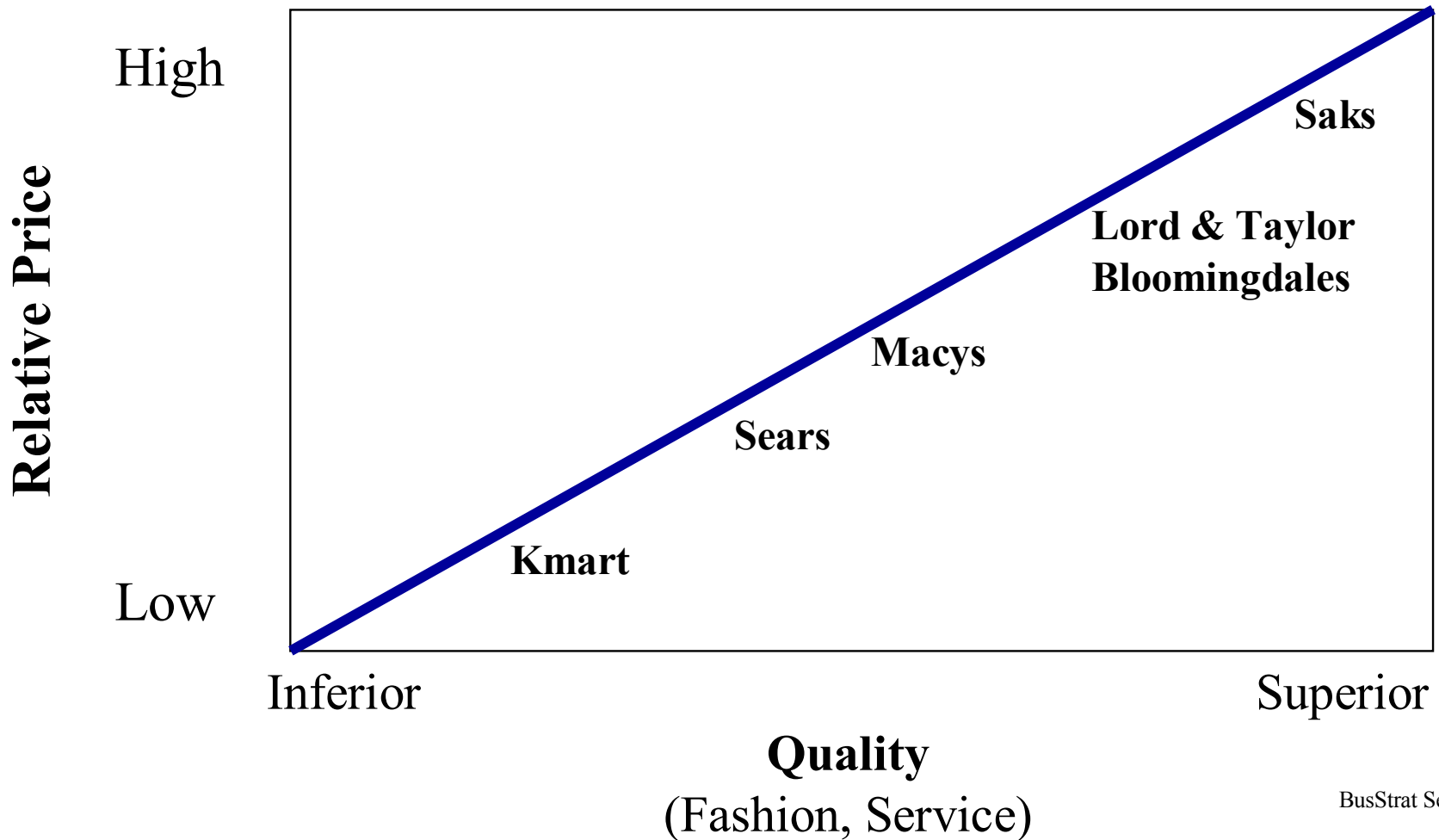
Positioning the Offering on the Value Map is a Key Decision



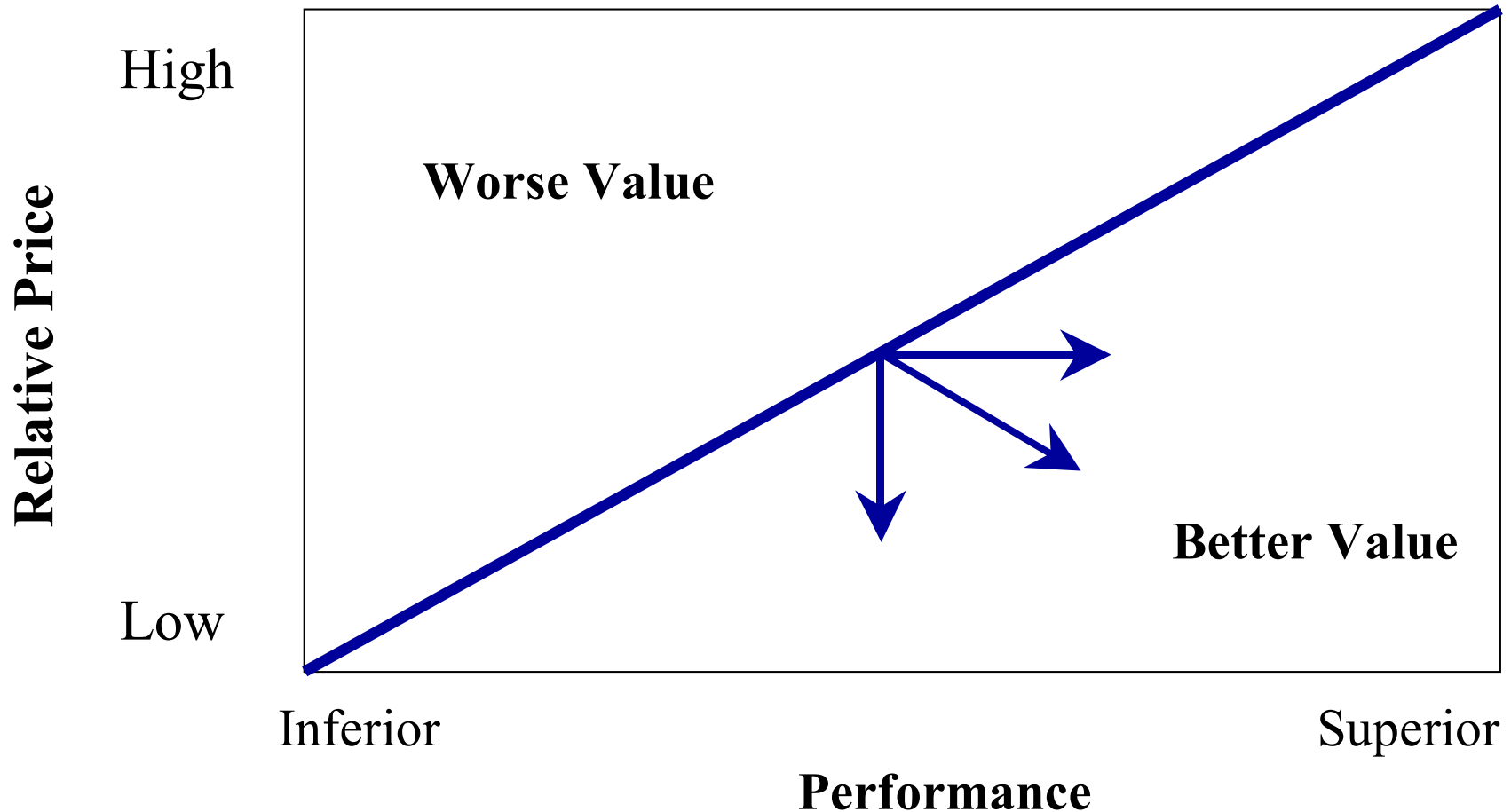
Value Mapping: Ice Cream



Proximity of the Value Map Indicates Intensity of Rivalry



Selecting the Avenue for Enhancing Value is a Strategic Choice



The Commodity-Specialty Continuum Summarizes Value Concepts

Commodity



Specialty

Buyer has knowledge
physicals vs benefits

Buyer purchases performance
with assurance

Competitive products
are interchangeable

Physical attributes are
unimportant

Price is determined
by demand and supply

Price determined by value

Market approaches
perfect competition

Market approaches
monopolistic competition

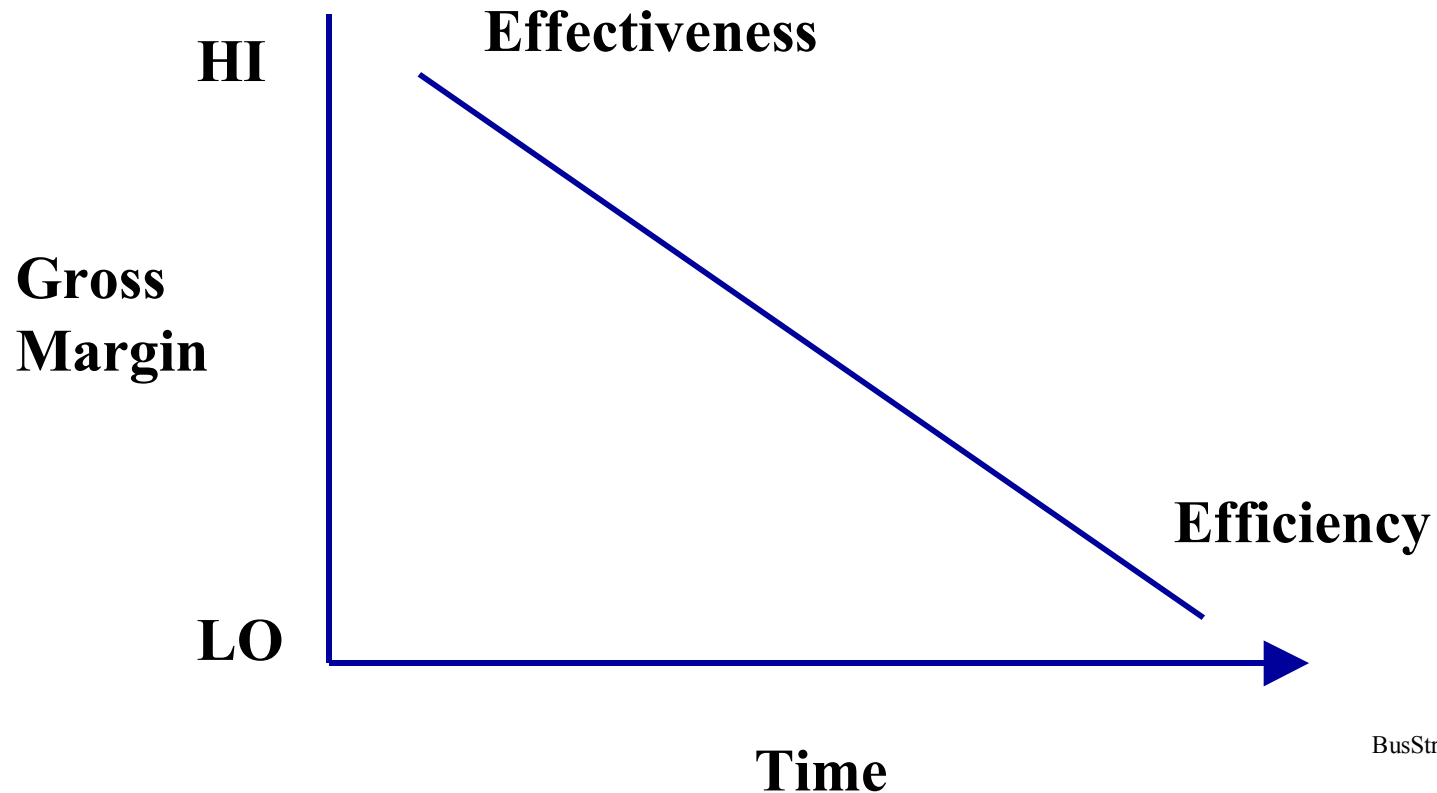
Specialty Products are Characterized By...

Proprietary: Patents, Trade secrets, Unique supply position, Locational advantage, Non-duplicable resources

Market Franchise: Brand Equity, Trademark, High Value Customer Service

System: Market Research, R&D
Knowledge Capture
Moving Performance Target

In the Long Run All Markets Become Commodities



Leadership Comes From Following Three Rules...

- Rule 1** Leaders offer best value by excelling in a specific dimension of value
- Rule 2** Leaders maintaining threshold standards on all other dimension of value
- Rule 3** Leaders dominate by improving value continuously

A Business Must Choose Between Specialty and Commodity Strategy

	<i>Specialty</i>	<i>Commodity</i>
Fixed Investment/Sales	Low	High
Volume	Low	High
Margin	High	Low
Turnover	Low	High
R&D	Product/Application	Process
Culture	Customer Responsiveness	Efficiency