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 Inputs

Superior Technology

Superior Operations

Superior Offering

Superior Access

Superior Segments

Superior Customers

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

\[ u = a + b_1 x_1 + b_2 x_2 + b_3 x_3 \ldots \text{ etc.} \]

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

<table>
<thead>
<tr>
<th>Relative Price</th>
<th>Performance</th>
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<tbody>
<tr>
<td>Low</td>
<td>Inferior</td>
</tr>
<tr>
<td>High</td>
<td>Superior</td>
</tr>
</tbody>
</table>

- **Inferior**
- **Economy**
- **Average**
- **Premium**
- **Better Value**
- **Worse Value**
Value Mapping: Ice Cream

Relative Price

High

Low

Quality (Taste, Fat Content)

Superior

Inferior

Private Label

Dolly Madison

Baskin Robins

Ben and Jerry

Häagen Daz

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Proximity of the Value Map Indicates Intensity of Rivalry

Relative Price

High

Low

Quality
(Fashion, Service)

Superior

Inferior

Kmart

Sears

Macy's

Lord & Taylor

Bloomingdales

Saks
Selecting the Avenue for Enhancing Value is a Strategic Choice

Relative Price

High

Low

Performance

Inferior

Superior

Worse Value

Better Value

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The Commodity-Specialty Continuum Summarizes Value Concepts

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Specialty</th>
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<tbody>
<tr>
<td>Buyer has knowledge physicals vs benefits</td>
<td>Buyer purchases performance with assurance</td>
</tr>
<tr>
<td>Competitive products are interchangeable</td>
<td>Physical attributes are unimportant</td>
</tr>
<tr>
<td>Price is determined by demand and supply</td>
<td>Price determined by value</td>
</tr>
<tr>
<td>Market approaches perfect competition</td>
<td>Market approaches monopolistic competition</td>
</tr>
</tbody>
</table>
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

Time

HI Gross Margin

LO Efficiency

Effectiveness
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

<table>
<thead>
<tr>
<th></th>
<th>Specialty</th>
<th>Commodity</th>
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</thead>
<tbody>
<tr>
<td>Fixed Investment/Sales</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Volume</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Margin</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Turnover</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Product/Application</td>
<td>Process</td>
</tr>
<tr>
<td>Culture</td>
<td>Customer Responsiveness</td>
<td>Efficiency</td>
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