Long-Term Growth Strategy
Some Key Value-Delivery Principles

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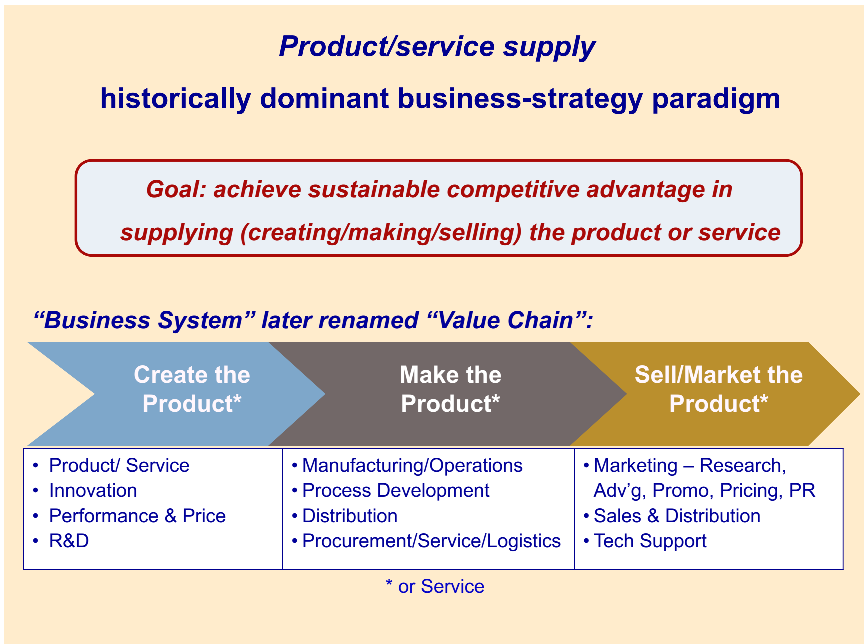
This document explains some key "value delivery" concepts for developing long-term growth strategy. Value-delivery focuses on generating long-term, breakthrough growth by profitably delivering superior value propositions. Key concepts discussed are:

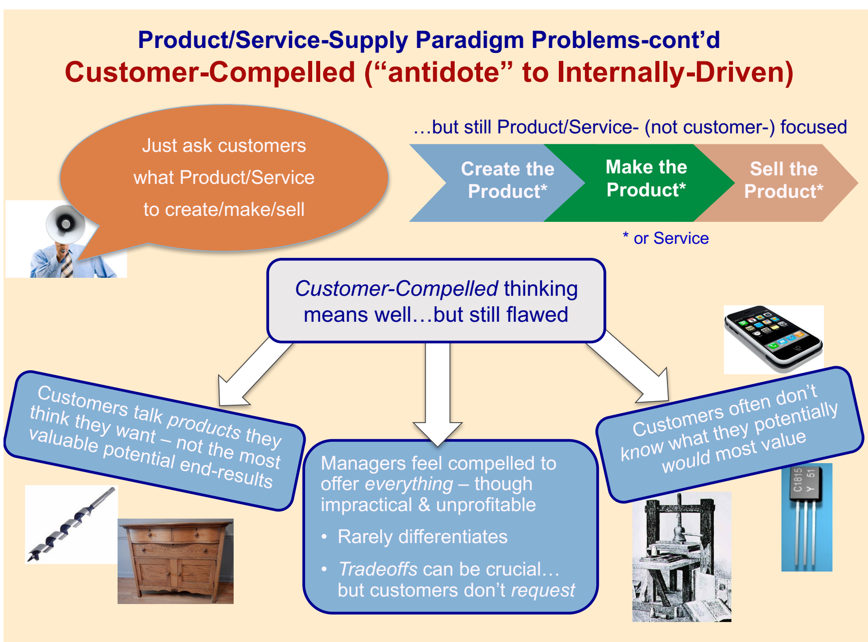
I. PRODUCT/SERVICE SUPPLY PARADIGM–The dominant strategy paradigm sees a business as an integrated system of complementary activities that produce–create, make, and sell/market–some product or service. Its key goal is "sustainable competitive advantage" (SCA) in these supplying functions, which are usually further subdivided, into e.g., technology, marketing, distribution, logistics, etc. This framework was introduced by McKinsey & Company in 1980 as the "Business System," then adopted, renamed and popularized by Harvard's Michael Porter in 1985 as the "Value Chain."



Managing businesses as integrated systems, and aiming for SCA made good sense. However, this paradigm focuses on the wrong subject–supply of a product/service–rather than the much better focused subject–delivery of value. Because of this misconceived product-supply focus, the traditional paradigm fosters and reinforces two counterproductive perspectives: Internally-Driven and Customer-Compelled.

IA. Internally-Driven thinking–Many businesses are "Internally-Driven" in developing and executing their strategy. That is, they think inside-out, deciding what products and services to offer based on what they believe they do best, or that best leverages their assets or "competencies", or that is most "comfortable." They try to price their offerings competitively, and profitably (given costs). Then they use marketing and sales to convince customers that these products/ services have superior performance and/or value given their price. In contrast, they do not make these decisions primarily based on what customers want. Thus, the business may be comfortable, using what it thinks are its advantages, but not necessarily offering to customers what would deliver superior value to them.

IB. Customer-Compelled (hoped-for Internally-Driven Antidote) Many pursue the assumed sole alternative path: "customer-compelled." "Be close, listen," promise "total satisfaction, do as they say." But despite listening, the customer-compelled fail to discern or understand the results that customers would most value. They still ask the wrong question (how to make and sell what product?), but now ask customers. Compelled to promise and deliver *everything* that customers request, they ignore limitations of cost and capability. And customers often do not know what end-results they would most value.

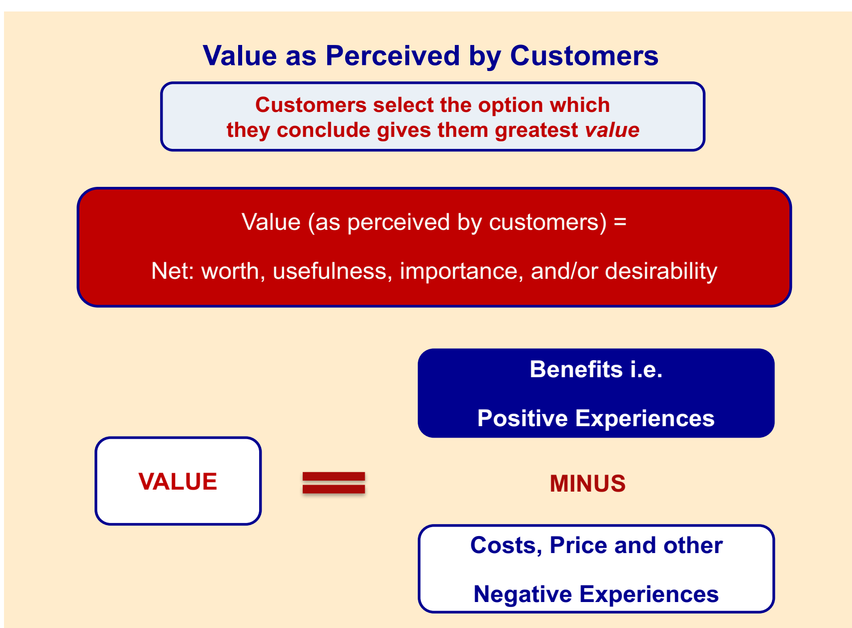


A third path is needed–the Value-Delivery paradigm.

II. VALUE-DELIVERY PARADIGM–A truly customer-focused alternative.

IIA. Resulting Experiences–a central value-delivery concept–What happens when customers buy and use a product/service. To influence customer behavior and attitudes, and thus win revenue, we must explore, understand, and where possible improve (or create better) resulting experiences. Products and services are important, but only because they enable customers to derive resulting experiences, the real source of customer value. Strategy should focus on the delivery of customers' resulting experiences.

IIB. "Value" as perceived by customers

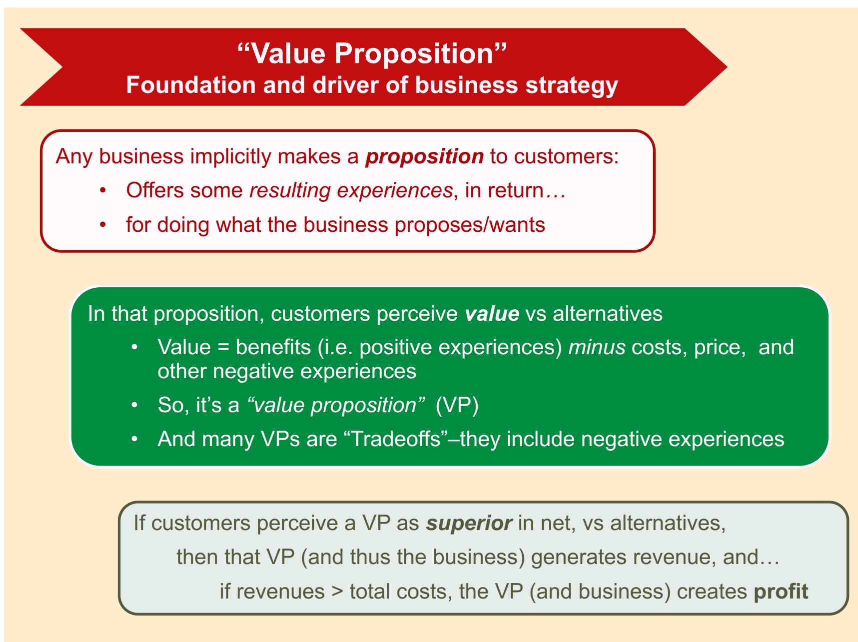


By "value" we mean the worth or usefulness a customer derives, net of any benefits (and/or positive experiences) *minus* any costs, price, and/or negative experiences. A business can be understood as revolving around this idea of value. A business succeeds when customers derive net value from buying and using the business' products/services.

IIC. "Value Proposition"–foundation and driver of business strategy

A business is best conceived and managed as a deliberately chosen proposition to a set of target customers. It offers a scenario of resulting experiences to those customers, in return for price (or something else of value). These customers will derive and perceive some value in this scenario, including benefits or positive experiences, and price, costs, and negative experiences (i.e., tradeoffs). Thus, it is a "value proposition" (VP)

The business may cause customers to derive the promised scenario. If they perceive that the value derived is greater than that of alternatives, it is a "superior" value proposition; the business "chose" and "delivered" a superior VP. If revenue from the VP is greater than the total cost of delivering it, the business generates profit (share-holder value).



IIC1. What a Value Proposition is…and *isn't*

This term is defined or understood in various ways, and though your author created and coined the concept, we don't claim here that there is only one right definition. However, we argue for what we believe is the most helpful, actionable definition. Below, we contrast that understanding with some typical uses that we would suggest are misunderstandings or even misuses of the term.

Strategy not Message: The VP should certainly clarify what we want customers to understand, and should drive and guide how we communicate to them, but it should not be literally that message. A VP is an internal document, to achieve consensus and agreement of the strategy. Execution, including messaging, follow from the VP.

Intended customer impact, not our qualities: The VP should clarify the ultimate impact we want to have on the customer's experiences, not describe our qualities.

Competitive Comparisons: A VP should state how customers' experiences will be shaped by doing business with us and using our products/services. Do not list platitudes and generalities–usually not offensive to customers, but so vague that they are unactionable.

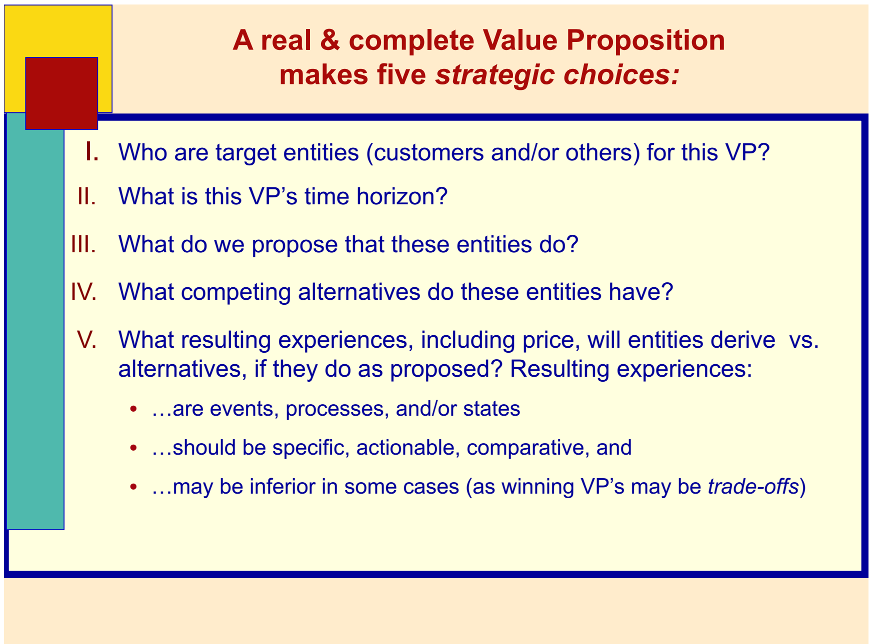
What a real & complete Value Proposition *IS*…and *ISN'T*:

What a real, complete VP *IS:*	Misuse–what it *ISN'T:*
HEART OF STRATEGY: • *Internal* doc, for consensus/alignment • *Customer experiences* to make happen; *revenues, behaviors* we want in return	***MESSAGE/EXECUTION:*** • What we tell customers, how we say it • Elevator Pitch/Positioning/ Unique Selling Proposition (USP)
***INTENDED CUSTOMER-IMPACT*:** • How customers will be better-off	***OUR QUALITIES:*** • Product/service performance, attributes • Capabilities & strengths
COMPETITIVE COMPARISONS: • *Specific* experiences customers get, and its value, vs alternatives • Measurable, quantified as possible	***VAGUE, GENERIC TOPICS:*** • Platitudes, general categories • Aspirations; few or no competitive comparisons or metrics

IIC2. A real & complete Value Proposition Makes Five Strategic Choices Consistent with this above strategic, actionably specific role, the articulation of a VP needs to be complete, making a set of five specific strategic choices.

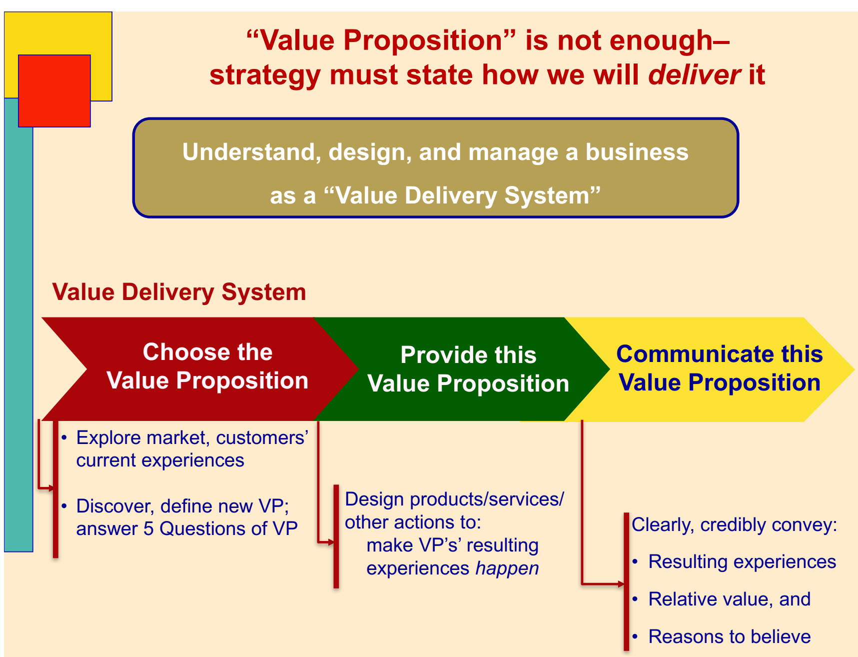
1. **Target entities**–This choice is typically included in VP statements, as it should. It identifies to whom the proposition is intended–entities or individuals, including demographic and relevant behavior, such as current product usage and habits.
2. **Time horizon**–A VP must choose specific, measurable results, including *when* these will be delivered. Timing may depend on actions by the business (e.g. product development) or others (e.g., competitive, or regulatory).
3. **What we propose that target entities do**–To get the promised experiences of a VP, target entities usually must exhibit some behaviors, typically some purchase but often other actions. For example, a customer may need to change operations, or adopt a new type of product/service, or we may propose that they increase total usage. A VP must explicitly indicate these more ambitious actions needed.
4. **Entities' competing alternatives**– If they do not do as we wish, what will they most likely do instead? What will they perceive as their best alternative? The VP must clarify why customers should do as proposed rather than these alternatives.

5. **What resulting experiences will we deliver?** –Given the above choices, the VP must specify the experiences customers will derive. These include benefits, price, costs, and any other negative experiences. So, VPs are often *tradeoffs,* delivering more value in some experiences, less in others, resulting in more total net value.



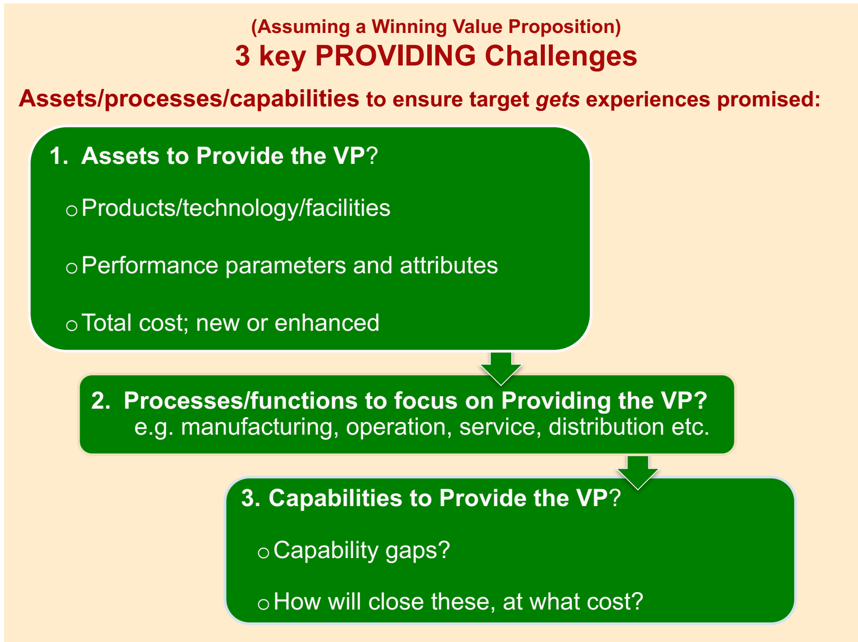
IID. Value Delivery System (VDS)–completing the Value-Delivery paradigm

IID1. A strategy must define how we'll *deliver* a VP–Choosing a superior, winning VP is not enough. We must *deliver* both *Provide* and *Communicate* the VP–to customers.

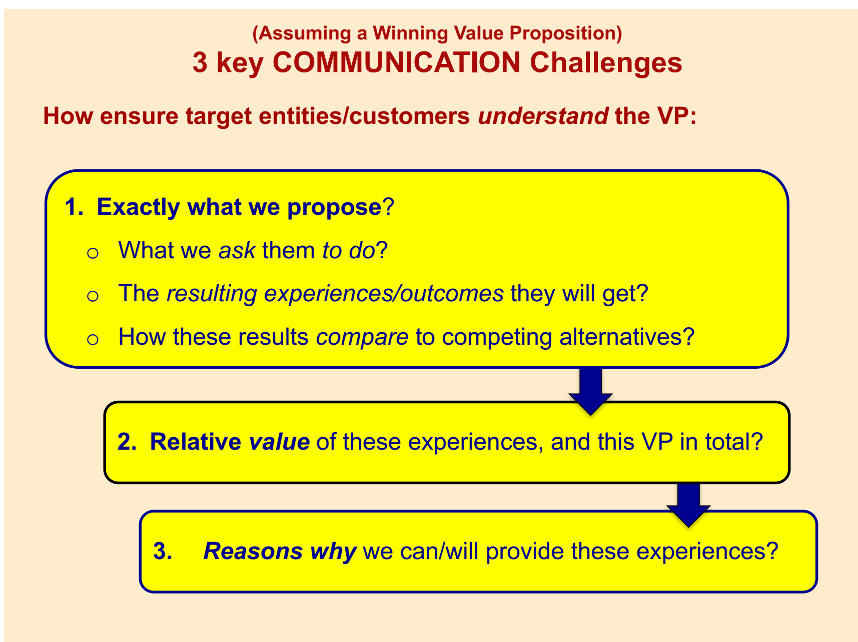


Each of these crucial elements of delivering a VP require meeting key challenges:

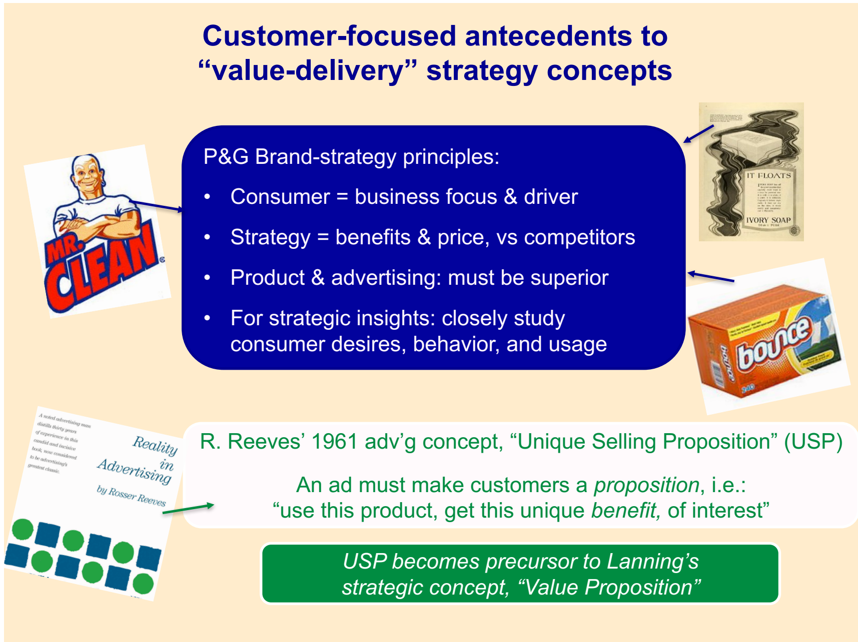
IID2. Challenges of Providing a Value Proposition



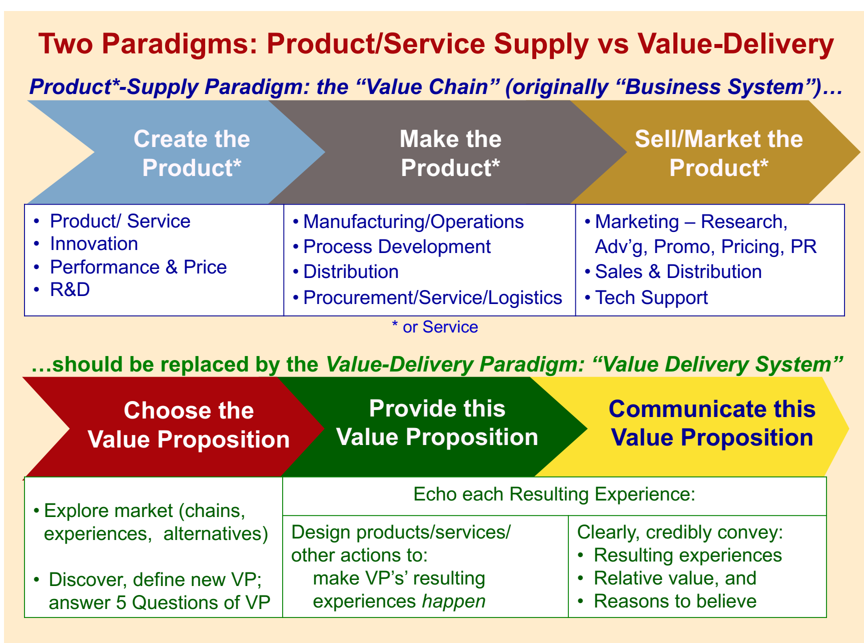
IID3. Challenges of Communicating a Value Proposition



IIE. Customer-focused antecedents to Value-Delivery concepts–After seven years in Procter & Gamble (brand management), your author joined McKinsey and found consulting-and-academic strategy thinking much more internally-driven and product/service-supply oriented. This contrast helped spur development of the value-delivery concepts and paradigm. In addition, Rosser Reeves's "Unique Selling Proposition" (USP), also discovered at P&G, served as precursor to "value proposition," translated into the strategic context (much broader than just advertising or "selling").

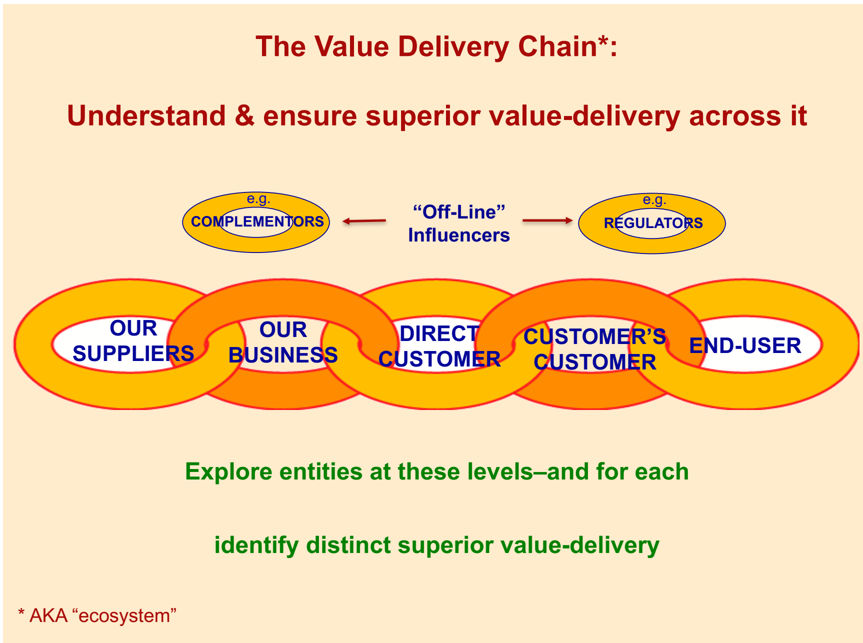


IIF. Replace Product/Service Supply with Value Delivery paradigm–The product/service supply paradigm–the "Value Chain" (originally "Business System")–should be replaced by the value-delivery paradigm–the "Value Delivery System."

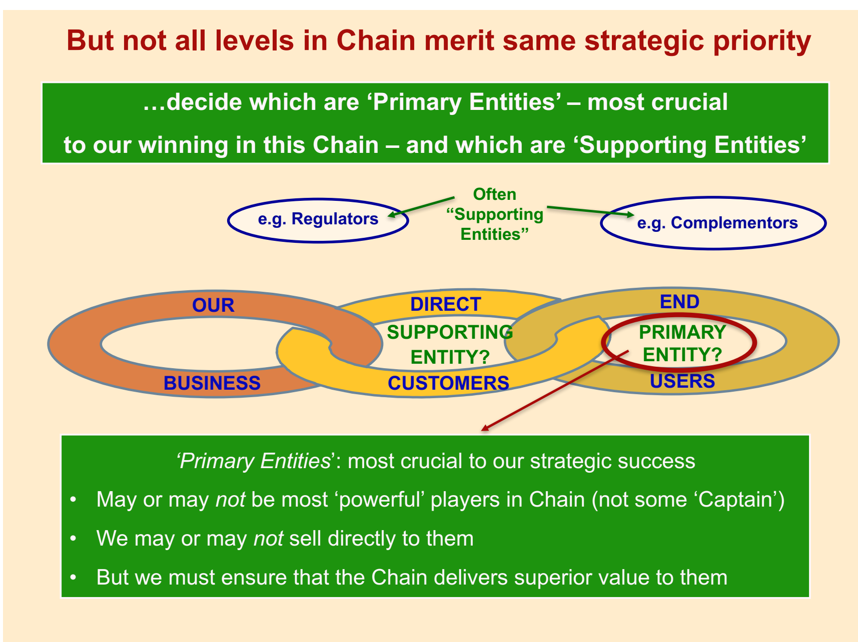


III. VALUE DELIVERY CHAIN–ADDITIONAL COMPLICATION:

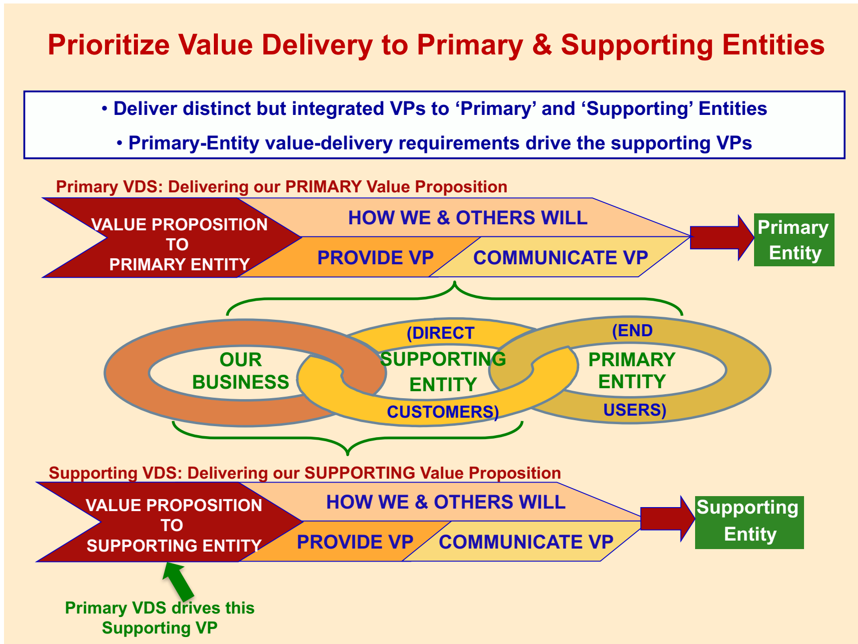
IIIA. Understand & ensure superior value delivery across the Chain– Additional complication in developing a strategy is that most businesses operate within a chain, including suppliers and customers, sometimes at several levels. Strategy must think through what value propositions are most appropriate to deliver, and how, at each of those levels. Businesses must understand their whole chain (aka ecosystem): suppliers, customers, competitors, influencers, etc. A different VP is needed at each level.



IIIB. But not all levels of Chain should get the same strategic priority



IIIC. Prioritize value delivery to these entities



As example, a consumer might be a primary entity for a consumer-product manufacturer, with a retailer being a supporting entity. Or an OEM manufacturer might be primary entity for a chemical supplier, with a component-maker being a supporting entity. The business should first design the VP to the primary entity, and how to deliver it (i.e. the primary VDS), including the support actions needed from the supporting entity. Then the business should design the supporting VDS.

These two VDSs must complement each other as part of an integrated strategy, with the primary VDS playing the leading role in that strategy.

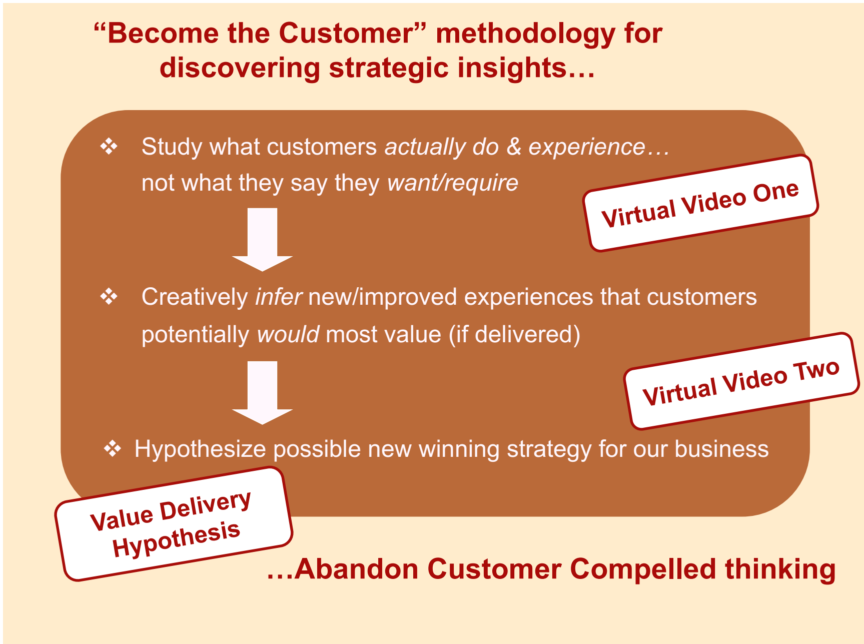
IV. MARKET EXPLORATION–DISCOVERING STRATEGIC INSIGHTS

In the 1990s, as published in the book *Delivering Profitable Value,* your author[1] developed the market-exploration methodology, "Become the Customer," to creatively discover strategic insights, without being either internally-driven or customer-compelled.

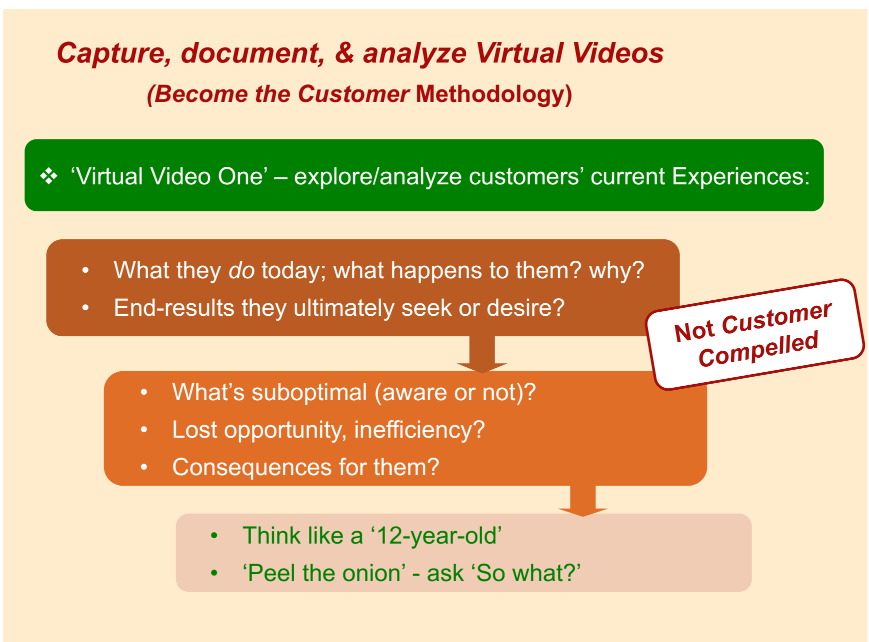
IVA. "Become the Customer" market-exploration methodology–Managers define customers' suboptimal experiences, and potentially superior narratives, by closely studying current behaviors and experiences. This exploration starts with the study and documentation of "Video One"–what actually happens today, what's suboptimal about it, with what consequences for the customer. Then, in constructing "Video Two" we imagine a much better scenario, potentially possible, especially with proactive steps by our business. In "Video Three" we study what competing alternatives offer today and

[1] Working with then-partner Dr. Lynn W. Phillips

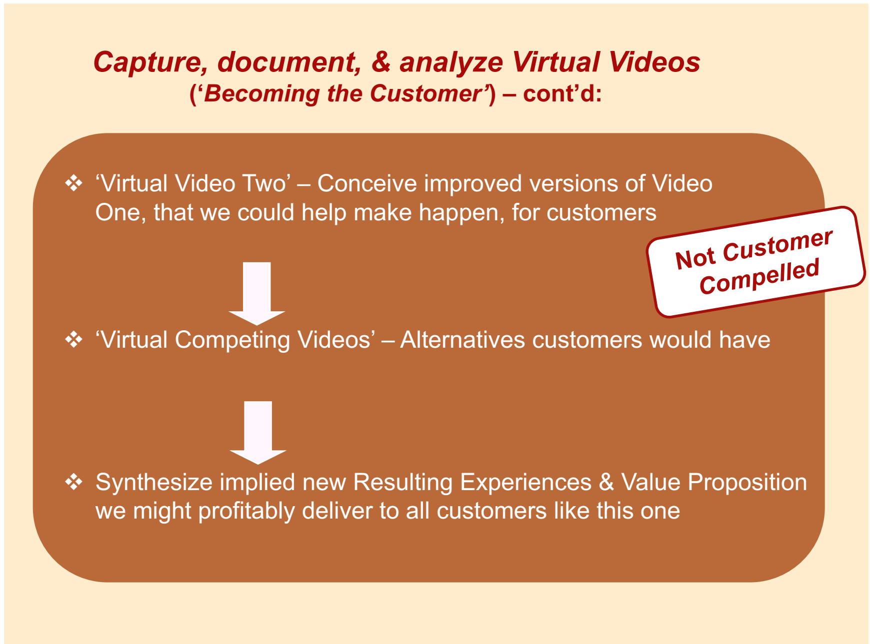
what they could plausibly offer in response to what we might make happen (i.e. in response to Video Two). Based on this analysis, for a series of possible customers, the business identifies a possible new, breakthrough winning value proposition.



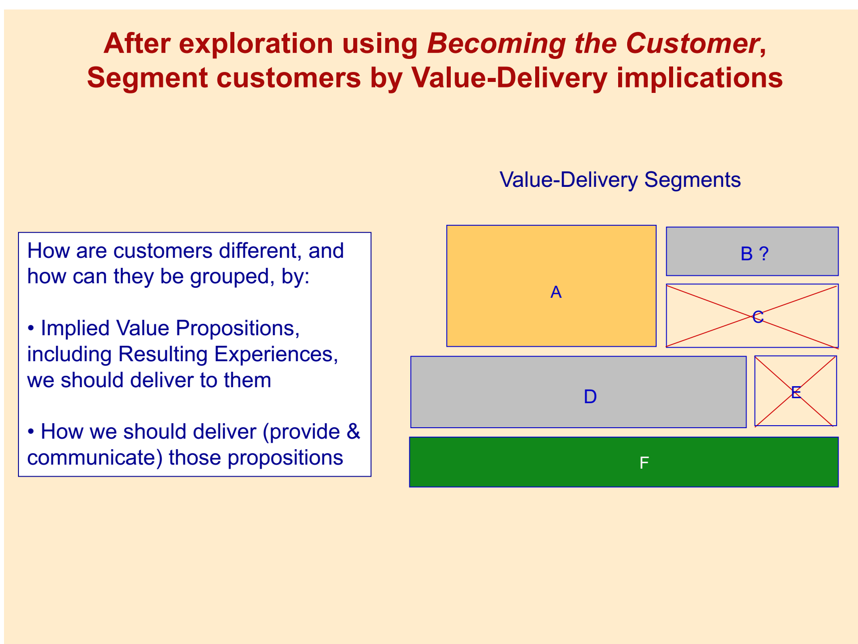
IVB. Capture, document, analyze Virtual Videos–Video One



IVC. Video Two, Competing Videos, Synthesis

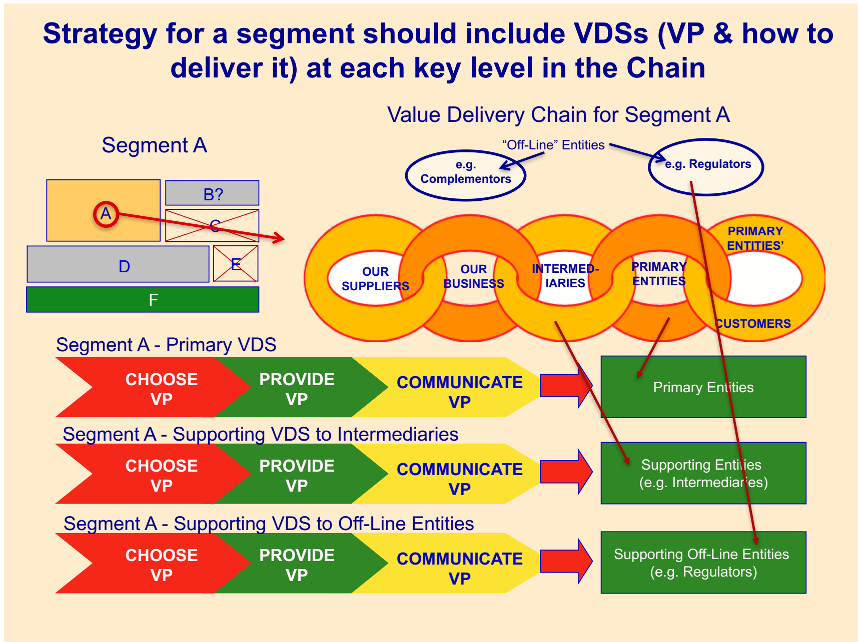


IVD. Segment customers by Value-Delivery implications



V. SYNTHESIZE COHERENT LONG-TERM GROWTH STRATEGY

VA. Strategy for a segment must include VDSs at each level in the Chain



VB. Complete strategy includes Assessment of full (10) business implications

Complete growth strategy includes Assessment of full (10) business-implications

Strategy Assessment Questions 1-5 (of 10)

If we Deliver the chosen Value Propositions, in the way we have described:

1. Do we believe target customers will conclude that – by doing as we propose – they will derive a clearly superior VP from us, vs alternatives?
2. If so, how much revenue do we project will result?
3. Is our description of how we will Provide and Communicate our chosen VPs – both to primary and supporting entities – realistically *feasible?*
4. What capability gaps must we close, and how, to execute this strategy?
5. What capital, human resource, or other investments are needed?

Assessment of strategy's business-implications–cont'd

Strategy Assessment Questions 6-10

6. What is total cost of Delivering these VPs, including operational on-going costs and those of 4 & 5 above?

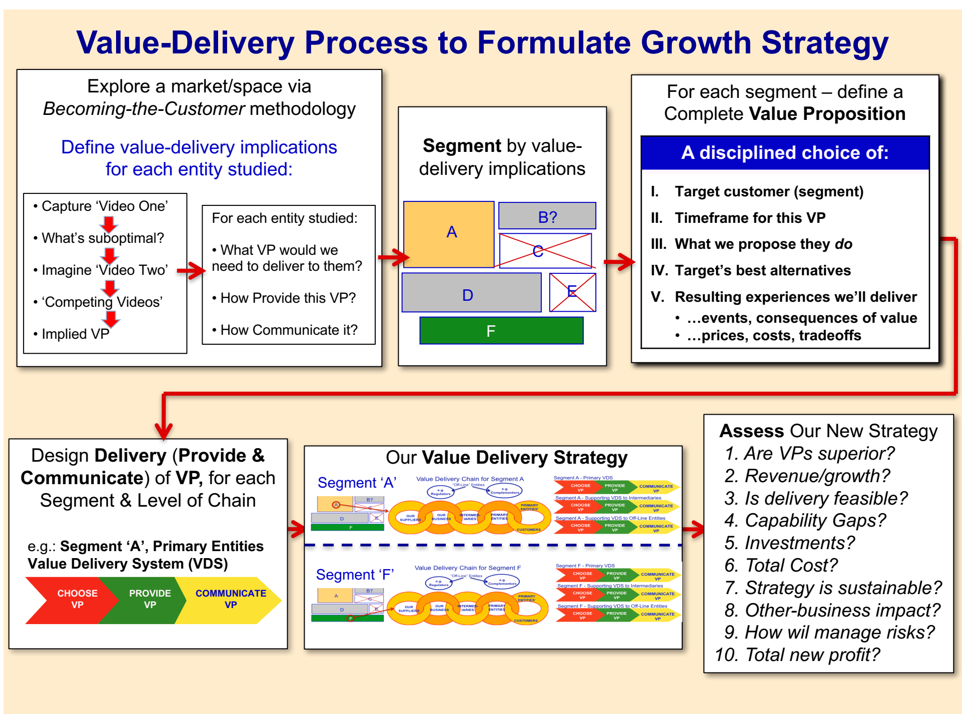
7. How sustainable is this strategy? What is ability of competing alternatives to equal our VPs? What trends/discontinuities could undermine our success?

8. What impacts will this strategy have on our other businesses?

9. How will we manage the key risks that will face this strategy?

10. How much new net profit (shareholder wealth) after total costs will we generate if we Deliver the chosen VPs as described?

VC. Summary of Value-Delivery Process to Formulate Growth Strategy



NOTE ON ORIGINATION/EVOLUTION OF VALUE-DELIVERY CONCEPTS

The usefulness of these value-delivery concepts is not really dependent on who may have first created them. However, despite how frequently many of these terms are used in business discussion, their origin and authorship is not widely known or established, probably exacerbating the common condition that there is arguably no clear consensus on how to define and understand them. And when I explain what I mean by these terms, people fairly often want me, instead, to use what they feel is the correct understanding. They may be correct, since everyone has a right to their own definition and explanation of various concepts. However, it may help here to clarify how I arrived at the particular definitions and explanations that I use, and why I often add that these are the original intended meanings. That reason, though I readily admit it is largely a well-kept secret, is that I am in fact their author.

Specifically, in 1983 I originally developed and articulated the fundamental concepts and terms of "value delivery" while at McKinsey & Co (working most closely with Senior Director Edward G. Michaels and a team of other McKinsey people helping to develop these concepts). Those included "value proposition," "value delivery," and the "value delivery system" (including "Choosing, Providing, and Communicating" the value/value proposition), and "building market-focused organizations." With Ed as my co-author, these ideas were finally published in a McKinsey Staff Paper in 1988.

Then, in the ten years after leaving McKinsey, I developed several of the other most important concepts and terms that refined the value-delivery approach (working most closely with my partner, the academic Dr. Lynn W. Phillips, who co-taught these concepts with myself in an executive-education course, "Building Market-Focused Organizations"). Those later concepts/terms included especially "customer's resulting experiences," "tradeoffs" (i.e., inferior customer experiences, often part of a value proposition), "becoming the customer," and "videos (one and two) of a day in the life of a customer." The full body of value-delivery thinking, including the 1983 original concepts and the later ones, were published in my 1998 book, "Delivering Profitable Value."