



Disruptive Value Propositions The Key to Above Market Growth in Mature Markets

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Consistently achieving above-market organic growth (with at least market-level profitability) in mature markets, and against entrenched competition, requires the creation of value propositions that are strong enough to overcome the customer's perceived risk of change and the other built-in resistance to change that exists in most customer organizations ... said another way – it is very difficult (and expensive) to create above-market organic growth in mature markets with “me too” value propositions.

However, I find that many management teams struggle to articulate a compelling value proposition to the market. Without a compelling value proposition that is effectively communicated and delivered it is not likely a company is going to consistently grow at above-market rates and may even struggle to maintain their market share – the business world is full of examples from General Motors to Kodak.

Consistently achieving above-market organic growth in mature markets, by definition, requires gaining market share, usually against entrenched competitors. This can be a daunting challenge and can be expensive, in fact, some strategic advisors would warn against making the attempt, because the chance of the success overcoming the risk is small. However, creating above-market organic growth in mature markets can be done successfully, and profitably. The key is to provide value propositions that are sufficiently compelling to be disruptive to the status quo in a meaningful segment of the market.

Customers tend to be anywhere from ok to highly satisfied with the status quo until they believe there is a higher level of satisfaction available. People talk about disruptive technologies or disruptive services—these things are disruptive because they disrupt people's satisfaction with the status quo.

Creating such a compelling value proposition starts with superior insight into the customers' needs and wants. This can be the result of leadership vision – the example has been widely used in strategic planning meetings that Henry Ford supposedly said, “If I asked people what they wanted they would have said a faster horse.” And of course it is not likely that Steve Jobs would have been able to identify from market research the potential for many of the life-changing Apple products his company has brought to the world.

However, superior insight can also be the result of an ongoing process of listening to the customer's business objectives and creating innovative products and/or services to better meet those objectives than what is being provided by the customer's current solutions. When we created the strategic alliance agreements in the mechanical seal industry that fundamentally changed the way many customers do business with their mechanical seal suppliers, it was not because customers told us they wanted strategic alliance agreements. Listening to the customer's business objectives and creating a better way to help them meet their objectives is what drove that innovation.

The strategic alliance approach created a win/win situation and, for the first time in the industry, aligned the customer and supplier business objectives. We did not create any new technology or products, we disrupted the status quo by creating a new business proposition that changed how our products and services were provided to the customer.

The point being that superior insight can be the result of an ongoing process of asking about, and perceptively listening to the customer's business objectives and creating innovative products and/or services to better meet the those objectives than what is being provided by the customer's current solutions.

Such a process should have five key elements:

1. Understanding the customer's business objectives.
2. Evaluating the value proposition of the current solutions.
3. Creating the disruptive value proposition.
4. Determining the capabilities and resources necessary to communicate and deliver the disruptive value proposition.
5. Defining and plan for success.

1 Understand the customer's business objectives

The first question the analysis should address is – which customers? The process should include segmenting the market into groups of customers by type and size or whatever set of criteria makes sense to you. The objective is to find groups of customers that may have current and/or evolving needs and wants where you think you may be able to provide a disruptive value proposition.

There are various approaches to gathering information that will be useful in developing disruptive value propositions including engaging outside firms to do voice of the customer (VOC) interviews, input from the company's inside and outside sales people and discussions with channel partners. However, in my opinion, while an experienced advisor / facilitator can provide a proven process and help the management team create the pertinent questions, compile and interpret the answers, brainstorm potential disruptive value propositions and even be an added team member to talk with customers, it is important for your senior management level people to talk with P&L, operations, reliability and maintenance and procurement management people of the end-user customers.

The pitfall that needs to be avoided is not asking the questions that get to the heart of the issue – many times the questions that are being asked are good questions but they stop short of providing the basis for the meaningful insight necessary to create disruptive value propositions: what do you like about your current suppliers; what would you change about your current supplier; what does the perfect supplier look like? These are all worthwhile questions but they fall short of enabling you to understand what the customer is trying to achieve. They are also asking the customer to imagine how their suppliers can create better solutions. In my view, that is asking the customer to do our job.

It is our job to understand the customers' needs and wants and imagine how to create superior value propositions to meet those needs and wants. It can be the difference between providing faster horses or creating the automobile, or continuing to tweak doing business on a transactional basis or creating strategic alliance agreements.

A serious potential pitfall to be avoided is to create a value proposition that is somewhat better than the current solutions, and invest in sales and marketing costs as well as systems and processes to support that improved value proposition, only to learn the expensive lesson that the degree of improvement being offered is not meaningful enough to cause the customers to change current practice.

2 Evaluate the value proposition of current solutions

If you are going to offer a value proposition that you expect will be compelling enough to disrupt the customer's status quo, it stands to reason that the first step is to understand the value proposition of the current solutions the customer is utilizing. A serious potential pitfall to be avoided is to create a value proposition that is somewhat better than the current solutions, and invest in sales and marketing costs as well as systems and processes to support that improved value proposition, only to learn the expensive lesson that the degree of improvement being offered is not meaningful enough to cause the customers to change current practice.

In evaluating the current value proposition you should consider both the tangible and intangible value – not only the financial cost/benefit of the current value proposition but the degree of confidence, satisfaction and relationship the customer has with their current solution providers. How easy is it to do business, how have the current suppliers reacted to resolve problems, etc.

It is important to be able to address not only the tangible elements of the current value proposition but the intangible elements as well.

Getting customer input is, of course, valuable but not always reliable. Years ago, when the company I was working for was considering an expansion into Asia with an operation in Singapore, we talked with six of the largest potential customers. Three of those customers said they would welcome an additional supplier in the region. The other three customers told us they were completely satisfied with their current suppliers and not to bother coming into the market. As you might guess, after we established the operation, the customers who told us they were satisfied with their current suppliers and advised us not to bother coming into the market became some of our most important customers. On the other hand, the potential customers who said they would welcome us into the market remained potential customers.

The point being that in the end, management must make a judgment as to whether or not the new value proposition is sufficiently compelling to warrant the investment in people, market communications, systems and processes.

In order to make that judgment it is necessary to answer, as best as possible, the question: if we are going to offer a better value

proposition – how much better, and is the difference meaningful to a significant segment of the market?

It is critically important that you not underestimate the competitive value propositions. In my experience this is a tendency of management and is perhaps where an advisor/facilitator can bring significant value by providing a balanced point of view and help to make sure the new or enhanced value proposition is sufficiently compelling to earn a return on the investment required to execute it successfully.

3 Create the definitive value proposition

If one were to write a formula for a disruptive value proposition it would be:

$$VP1 - (VP2 + CPR + ORC) = VPs$$

Where:

VP1 = the benefits of your value proposition

VP2 = the benefits of the customer's current practice

CPR = customer's perception of the risk to make a change to current practice

ORC = organization's built-in resistance to change

VPs = the relative strength of your value proposition

Some companies rely solely on their management team to do their strategic planning and others engage an outside consulting firm to create a strategic plan. In our view, the process of developing insight and creating disruptive value propositions is most effective when it draws upon the experience and talents of the management team with support from an experienced advisor/facilitator who will work with the management team to transform information into insight to create and execute disruptive value propositions.

The disruptive value proposition can consist of a new or enhance product, a new or enhanced service, shorter lead-time, better pricing or other factors that provide a meaningful benefit to the customer vs. their current solutions.

I believe strongly that superior value propositions are the result of superior insight into the customer needs and wants that flow from the customer's business objectives.

Typically those objectives are going to be both financial and non-financial such as:

- Financial: reduce operating costs, reduce material costs, improve return on assets
- Non-Financial: reduce health, safety and/or environmental risks; consolidate supplier base; make it easier to do business

If a value proposition is going to be disruptive, chances are it will need to have a meaningful impact in one or more of these categories.

I feel the entire organization should be aware of the company's value propositions. However, it certainly should be an imperative that management and all customer facing people be able to articulate it.

4 Determine the capabilities and resources necessary to communicate and deliver

It is important to do an objective assessment of your current internal capabilities: people, processes and systems, as well as your products and services, for strengths and areas for improvement vs. the capabilities necessary to deliver the disruptive value proposition.

When we created the strategic alliance program we had to invent a new position – onsite engineer – and create a training program for that position. We needed to have the financial resources to provide consigned inventories and create systems to track product performance. Not all competitors could afford to make those investments so the disruptive value proposition had the benefit of eliminating competitors that were competing mostly on price and relationships while enhancing the customer's equipment reliability, reducing their maintenance costs and reducing their investment in MRO inventory.

I have found it is useful to prioritize the need for any additional resources using a forced ranking to avoid everything being important and needing to be done immediately.

In the process of creating the disruptive value proposition and the ability to deliver it, it is also necessary to consider if you have the market coverage necessary to sell it and how you sell it – direct or through distribution or a mix of both.

5 Define and plan to achieve success

Once you have gathered the information and transformed it into the insight that enabled you to create a disruptive value proposition, it is time to define success and establish the initiatives and action plans necessary to achieve that success.

The initial question to answer is: what would you consider to be a successful outcome in financial results – annual sales growth, enhanced profitability and return on investment – to warrant the effort and risk you are going to take to execute the new value proposition?

The next question is what would you consider to be a successful outcome in non-financial results e.g. increased customer base?

Once you have defined success in financial and non-financial terms the final step is to establish the initiatives and actions necessary to achieve those objectives. Chances are, initiatives and the actions necessary to execute those initiatives will involve each operating area of the business: sales and marketing, engineering, manufacturing, IT, HR and accounting/finance

At Global Equity Consulting we have considerable experience in helping management teams transition information into insight and create disruptive value propositions. We also have established processes that work to help management teams efficiently develop the initiatives and actions necessary to successfully execute the disruptive value proposition you have created.

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