Value: Fact, Fiction, and Everything in Between

*By Dr. Nadya Zhexembayeva**

It is safe to say that dogma, or any form of unquestioned belief, is bad for human progress. Collectively, as human family, we have been through enough of witch-hunting, world-is-flat executions, and parallel-lines-never-cross illusions to realize that it is good to question our assumptions, even if only to find them to be correct.

That is why it surprises me that one particular assumption has been put at the corner of our entire business life without much questioning. Yes, I am talking about value.

Ask a group of managers anywhere in the world what is the value they are creating, and the answers will strike you with astonishing predictability. I have done this experiment in many countries on both sides of the Atlantic Ocean, and always got the same answer: value equals profit, current and future combined. Welcome to the kingdom of shareholder value.

If you poke and push the same group of managers long enough, a few of them will offer another way of looking at value, and mention a product or service a company might provide. The serious engineer will mention steel doors, while the polished consultant will speak of audit and strategy development. In this kingdom, company, along with its products and employees, are at the center of attention.

It only happened to me once in fifteen years that a group of managers would actually speak of value as a set of benefits provided to customers. Value as a need to be met – whether it is safety, comfort, nutrition, or productivity that a customer is after. Perhaps, Charles Revson, the founder of the legendary Revlon Cosmetics, spoke about value best, when he uttered the now famous "In the factories we manufacture cosmetics, but in the stores we sell hope." The truth is that hope – along with comfort, convenience, speed, and alike – is the only value we, managers, create.

That does not mean that there is no room for products and profit in the value creation formula. Indeed, when the product or service designed meets the set of benefits – the value- the customers are after, the company profit goes up. If the product fails to deliver the benefits, or there is a better way to create the same value, the customers move to your competition, and the profits fall.

$$\text{If PRODUCT} = \text{VALUE, then PROFIT}\uparrow$$
$$\text{If PRODUCT} \neq \text{VALUE, then PROFIT}\downarrow$$

Well, that is a discovery on the century, one might say with sarcasm, and would be right. There is nothing new in this formula, so what is the big deal? If you happen to be the lucky professional who runs a business with an eye on real value creation, this article is a waste for you, and now is just about the right time to move on. But if you happen to belong to the absolute majority of us, managers that run around quarter to quarter maximizing shareholder value, or, at best, worship our own product, there is a bit of opportunity for you here.

While there are hundreds of good reasons to keep up with business as usual, focusing your entire effort on delivering the product and maximizing profits keeps you blind to the fast-paced change in needs and preferences of the market. Indeed, if Apple was building its organization around a particular successful product – a computer – it would never enjoy the success of iPod, and would not have a chance to revolutionize the music industry with introduction of iTunes. Neither profit, nor product, was at the center of the company attention – however, Apple never failed to deliver convenience, ease of use, and freedom in the world of personal technology use. The music industry, however, failed to notice that traditional CD-based music albums no longer represent the best way to deliver value customers crave – and end up facing serious existential crisis. Profit followed.

The water bottling phenomenon is another example of value-focused business innovation. Companies that invented bottled water do not make money by selling water, but rather by selling safety married to portability – it is not just water that people need (that is available in many bathrooms and other attractive locations), but safe water that can be carried along. The value is created, profit follows.

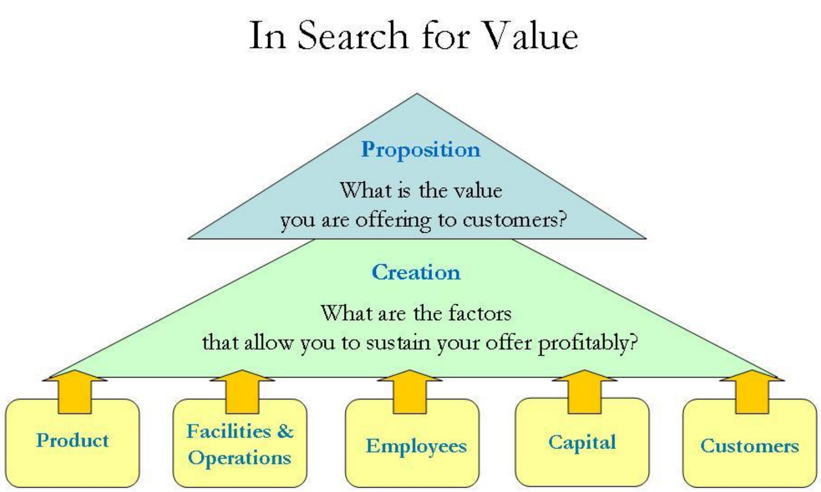
As we look ahead, a number of core products and services are about to go through similar transformations. Companies are beginning to notice that it is transportation from point A to point B that people are valuing, which cannot always be best achieved trough owning a car. A natural result – a growing number of car sharing companies throughout the world – a real competition to both, traditional car rentals and car dealerships. Housing is another domain to undergo major transformation – as fossil fuels continue to come under pressure, the need for easy, safe, and affordable houses is less and less often being achieved by large centrally-heated, electrified, and maintained complexes. Naturally, 'green' building with self-sustaining power options is a wave that is not going away.

So, what does it all mean for us? Practically speaking, I have rarely seen a company that managed to have long term success without absolute clarity about value they are striving to create. More than that, understanding your value proposition is the first and most important step of strategy design. So, it takes a simple, but regular and rigorous exercise to ask yourself:

1. *First, what is your current offer to customers, your unique value proposition – what makes your product or service appealing, competitive, needed, and ultimately, purchased?*

   Clear, focused, concise answers are key here: for a moderately-priced auto manufacturer, 'affordable and convenient transportation' could be the answer; for an insurance company, 'peace of mind' might be at the center, for a bread maker, 'taste of childhood' could be key (and knowing that would prevent you from creating a new, more modern bread recipe, thus sustaining your real competitive advantage).

2. *Second, what allows you to make such an offer to your customers – what factors of the company's value creation process are at the core of your strategic advantage? What do you compete on?*
   In the best of cases, the company's value proposition is deeply understood and artfully aligned with its value creation process. For a company that competes on affordability, cost-efficient operations and facilities, along with skillful management of product supply chain become the most important factors of financial success. A company that competes on innovation and design makes its bet on people's creativity and intellect, but may need original capital management to allow for costly research and development. In essence, there are only about five core factors that secure or destroy a company's competitive advantage – the product, management of facilities and operations, employees, capital, and management of customer relations. Choosing which one should get most of your attention should depend entirely on the value you are thriving to create.



I love what Kenneth Mason, former president of US-based Quaker Oats said about value and profit: "Making a profit is no more the purpose of a corporation than getting enough to eat is the purpose of life. Getting enough to eat is a requirement of life; life's purpose, one would hope, is somewhat broader and more challenging.

Likewise with business and profit." Yet, it might seem that now, in the middle of an unfolding global economic crisis, all this talk about value creation might seem superficial, and rather annoying. We are on short term track, cutting costs, trying to survive. Yet, it is exactly the obsession with profit and products (very specific investment products, I must add) that got us into the worldwide financial mess in the first place. Isn't it time to move our eyes towards 'real' industries – and real value?

Profits will follow.

**Dr. Nadya Zhexembayeva (nadya.zhexembayeva@iedc.si) serves as a Director of One-Year MBA Program at IEDC-Bled School of Management in Slovenia, where she teaches courses on organizational behavior, leadership, and sustainability. Nadya also helps companies create sustainable value and manage change through consulting, writing, and public speaking.*