



## Archived Newsletter Articles

# Master of One

*Value*



## Master of One

*Organizations can become market leaders by focusing on — and excelling in — one of the three value disciplines.*

You can't be all things to all people.

While we've heard that axiom many times, leaders of successful businesses take it to heart. They know that, if their company is to rise above the masses, it must focus on, and excel in, one of three "value disciplines" — operational excellence, customer intimacy, or product leadership.

In a previous newsletter (Vol. 2, No. 2), we discussed how customers perceive value. They make buying decisions based on the four foundations of perceived value: product quality, service quality, brand image, and cost. While all these variables enter into the buying decision, each customer will tend to place more emphasis on only one of them.

Companies can therefore deliver exceptional value to each of these customer segments by focusing on one of the value disciplines. Although every successful company must be competitive in all three of the disciplines, it will usually excel at just one.

As Michael Treacy and Fred Wiersema put it in a 1993 Harvard Business Review article titled "Customer Intimacy and Other Value Disciplines," "companies that have taken leadership positions in their industry in the last decade typically have done so by narrowing their business focus, not broadening it. They have focused on delivering superior customer value in line with one of three value disciplines... They have become champions in one of these disciplines while meeting industry standards in the other two."

All too often, however, companies make the mistake of trying to be all things to all people. Consequently, they fail to differentiate themselves in the marketplace, and are relegated to commodity status.

Your overall corporate strategy should focus on how you will enhance your organization's performance in its specific area of excellence. This will help you define your actions for the future.



Inside, we'll look at what it takes to excel in each of the value disciplines.

## **The Value Disciplines**

### *1. Operational Excellence -*

To be a leader in operational excellence, a company must provide reliable products or services that can be purchased at *competitive prices* and with minimal difficulty or inconvenience.

Organizations that have adopted a strategy of operational excellence boast highly efficient delivery processes built around sophisticated information systems.

#### *The leaders:*

Wal-Mart is recognized the world over for its cost efficiencies. If a price war were to break out tomorrow, the giant retailer could outlast all its competitors. It can therefore maintain the lowest prices and attract those customers who base their buying decision primarily on price.

Likewise, upstart Dell Computer competes successfully with its higher-profile counterparts, because it has a substantially lower cost structure. Dell's secret lies not in the product, but in the delivery system; by selling direct, it can undercut other PC suppliers while still providing high-quality products and service.

*Their competitive edge:* Low cost of doing business.

### *2. Customer Intimacy -*

While companies that excel at operational excellence run their businesses as lean, mean machines, those pursuing a strategy of customer intimacy provide superior value *by tailoring and shaping products* and services to unique customer needs.

Value-added services, focused marketing, and responsive/flexible processes are the hallmarks of this value discipline.



*The leaders:*

In a recent best practices study on customer service, Ritz Carlton Hotels was identified as a customer intimacy leader, based on its strategy of mass customization. The Ritz Carlton has built a database on its customers. Every time a customer stays at the hotel, that information is accessed to establish the needs of that customer. The hotel responds accordingly, whether it is by leaving fruit instead of chocolates in the room, or placing the telephone on the other side of the bed for left-handed guests. It is attentive to customer needs.

Paul Hunt, president of Pricing Solutions, cites the example of a client — an international bank — that has “relationship managers” instead of account managers. “They are in the customers’ operations all the time, making sure the bank responds to customer needs,” he says. “They almost function as advocates for the customer.” The payoff is long-term customer relationships and low employee turnover.

*Their competitive edge:* High customer retention and loyalty.

### *3. Product Leadership -*

Companies who excel at this value discipline lead the pack when it comes to introducing new products, even at the expense of cannibalizing their own offerings. The strategy of product leaders is to deliver superior value through *leading-edge products* that enhance customer benefit.

Product leaders do not have to have the lowest-cost operations because their customers are not price-sensitive — their priority is getting the hottest new product, whatever it might cost.

*The leaders:*

Proof of its commitment to product innovation, 3M has a policy stating that 25 per cent of its corporate revenues must come from products that have been created in the last three years. Another product leader, Intel, is constantly reinventing the computer chip, often displacing its own products in the process.

Product leaders are also risk oriented, as Johnson & Johnson’s Vistakon, Inc., demonstrated when it took a chance on an unproven technology. When executives at the specialty contact lens company

heard from a J&J employee in Denmark about a Copenhagen ophthalmologist who had conceived of a way of manufacturing disposable contact lenses inexpensively, they seized the opportunity. The two executives immediately bought the rights to the technology, assembled a team to oversee the product's development, and built a facility to manufacture the lenses, called Acuvue. The competition never caught up. Vistakon continues to investigate new materials to extend the wearability of its contact lenses, and even some technologies that would render the lenses obsolete.

*Their competitive edge:* First to market with leading-edge products.

## Find your niche

Identifying your company's value discipline takes strategic planning, and sometimes a great deal of soul-searching! One client of ours, for example, thought it should be a product leader. During a planning session, however, it determined that its real strength and greatest potential lay in customer intimacy. While its products had to be competitive, they did not need to be first to market.

Whatever value discipline your organization pursues, you must continually re-evaluate, refine, and even reinvent your strategy. As Treacy and Wiersema point out, the operating model that elevates a company to value leadership is superior and worth exploiting only until a better one comes along.

### WHICH VALUE DISCIPLINE ARE YOU?

*Which set of statements best describes your organization?*

- |   |   |   |
|---|---|---|
| <p><b>(a)</b></p> <ul style="list-style-type: none"> <li>• First to market with products ..... <input type="checkbox"/></li> <li>• Risk-oriented ..... <input type="checkbox"/></li> <li>• Advanced product R&amp;D ..... <input type="checkbox"/></li> <li>• Cannibalizes own products ..... <input type="checkbox"/></li> </ul> | <p><b>(b)</b></p> <ul style="list-style-type: none"> <li>• Leadership in price ..... <input type="checkbox"/></li> <li>• Low cost of ownership/use ..... <input type="checkbox"/></li> <li>• Highly efficient delivery processes ..... <input type="checkbox"/></li> <li>• Sophisticated technology and systems ..... <input type="checkbox"/></li> </ul> | <p><b>(c)</b></p> <ul style="list-style-type: none"> <li>• Long-term loyalty/retention .. <input type="checkbox"/></li> <li>• Preferred supplier relationship status ..... <input type="checkbox"/></li> <li>• Responsive/flexible processes ..... <input type="checkbox"/></li> <li>• Value-added services ..... <input type="checkbox"/></li> <li>• Focused marketing ..... <input type="checkbox"/></li> </ul> |
|---|---|---|

*If you selected (a), your value discipline is product leadership; (b), operational excellence; (c), customer intimacy. If you answered "none of the above," find a focus — and fast! If you answered "all of the above," then you probably fall short on all counts. Time to refocus!*

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