Available online at www.sciencedirect.com

ScienceDirect

KELLEY SCHOOL OF BUSINESS
INDIANA UNIVERSITY

www.elsevier.com/locate/bushor

Strategic value curve analysis: Diagnosing and improving customer value propositions

Norman T. Sheehan *, Vince Bruni-Bossio

Edwards School of Business, University of Saskatchewan, Saskatoon, SK S7N 5A7, Canada

Abstract   Managers often struggle to determine why their firm is underperforming relative to its rivals. This article outlines how managers and consultants can use an existing strategy tool, Kim and Mauborgne's strategy canvas, to robustly test whether their firm is underperforming because it is (1) properly executing the wrong value proposition's delivery or (2) failing to properly execute the right customer value proposition's delivery. Once the issues with the firm's value proposition and its delivery activities are correctly diagnosed, the strategic value curve analysis tool assists in developing recommendations to improve the firm's profitability. The article concludes by describing how the authors successfully used the tool to help a consulting client complete a review of its strategy.
© 2015 Kelley School of Business, Indiana University. Published by Elsevier Inc. All rights reserved.

1. Designing winning value propositions

A customer value proposition is a succinct description of the value the firm promises to consistently deliver to its customers. Developing a customer value proposition starts with an analysis of customers' needs, competitors' offerings, and the firm's strengths. Once the firm has selected an attractive customer niche segment to target, its managers then design an offering by selecting the attributes that best meet the needs of the targeted customers. An offering's attributes can be directed at meeting

the customers' functional needs, such as product quality or delivery time, or they can be directed at meeting the customers' emotional needs, such as their desire for prestige or inclusion. The final decision on what attributes to include in the offering is based on how well the firm can profitably meet the needs of its target customers differently than its competitors.

Once the offering is finalized, a customer value proposition is developed to communicate how the offering's bundle of attributes effectively solve the target customers' problems and position the offering relative to rivals' offerings. The customer value proposition is then communicated to the firm's target customers using various mediums. At the same time it markets the offering, the company mobilizes and manages the processes needed to consistently deliver the value promised. After the

* Corresponding author
   E-mail addresses: sheehan@edwards.usask.ca (N.T. Sheehan),
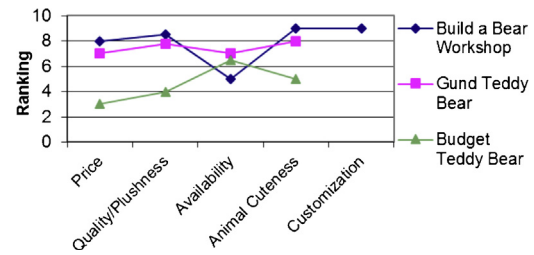bruni-bossio@edwards.usask.ca (V. Bruni-Bossio)

product is introduced into the marketplace, customers then make their purchase decisions based on their analyses of which competing value propositions best meet their needs.

In order to generate top line growth, a firm must continually monitor the needs of its target customers and competing value propositions. If the firm is struggling to generate the desired amount of top line growth, it may be difficult for managers to know exactly what the problem is. Is the firm flawlessly delivering a poor customer value proposition or is it poorly delivering a great customer value proposition? Perhaps the answer is both a flawed delivery and a flawed customer value proposition. Currently, managers lack a straightforward tool that can help them to accurately pinpoint what areas of the customer value proposition and its delivery processes require improvement. Rather than requiring managers to invest extensive amounts of time and money gathering research on its customers, competitors' offerings, and production processes, we developed an innovative way to use Kim and Mauborgne's (2005) strategy canvas to monitor, diagnose, and repair issues relating to a firm's customer value proposition and its delivery. The new tool, which we label strategic value curve analysis, is most effective when used in conjunction with traditional strategy tools such as the Five Forces (Porter, 2008) and PESTEL and newer strategy tools such as Blue Ocean Strategy (Kim & Mauborgne, 2005) to improve a firm's top line growth.

2. The strategy canvas

The strategy canvas provides a rich visual description of the focal firm's competitive landscape. A strategy canvas depicts the attributes that target customers use to make their purchase decisions on the horizontal axis of the strategy map—for example, customers select between competing offerings based on their prices, quality, prestige, and delivery times. The attributes used by consumers to make their purchase decisions should be prioritized and listed in order of importance, with price typically being the most important purchase attribute. The vertical axis of the strategy canvas depicts the rankings of each offering's attributes from 0 to 10. Managers generate value curves for each of the competing offerings by ranking each purchase attribute listed on the horizontal axis from 0 to 10 using their judgment—judgments that should be validated with customer data provided by J.D. Power and Associates, *Consumer Reports*, or direct surveys of customer preferences. When managers have completed Kim and Mauborgne's (2005) strategy canvas, there should be separate value curves

Figure 1. The strategy canvas for the plush toy market in 1997

that illustrate the focal firm's and its rival's customer value propositions.

Build-A-Bear Workshop provides an effective example of how a strategy canvas can be used to represent a competitive landscape (Sheehan & Vaidyanathan, 2007). When Build-A-Bear Workshop entered the plush toy market in 1997, it had two main competitors: At the low-end of the market, low quality plush animals were sold by a number of no-name manufacturers (see the value curve 'Budget Teddy Bear' in Figure 1) while the top end of the plush animal market was dominated by Gund (see the value curve 'Gund Teddy Bear' in Figure 1). The horizontal axis of the strategy canvas includes the four primary purchase attributes that Gund and the budget bear producers competed on, listed in order of importance: price (where Gund is displayed as having lower value to consumers due to its higher price), quality and plushness, availability, and animal cuteness.

Build-A-Bear successfully entered the plush toy market by offering consumers a compelling value proposition. While Build-A-Bear offered comparable plushness and animal cuteness to the stuffed animals sold by Gund, it created new value for children by allowing them to customize their bears, which entices parents to pay $40—$80 per bear depending on the number and type of accessories children select for their bears. Offering a unique value proposition (see the value curve 'Build-A-Bear Workshop' in Figure 1)—letting children personally tailor their bears—allowed the retail chain to grow very quickly: Build-A-Bear sold over 50 million bears in 10 years.

3. Strategic value curve analysis to diagnose and repair customer value proposition issues

Diagnosing and repairing customer value proposition and delivery issues involves drawing three value curves that illustrate the following customer value propositions: (1) the value proposition the firm promises to its target customers, (2) the value proposition the firm actually delivers to its target
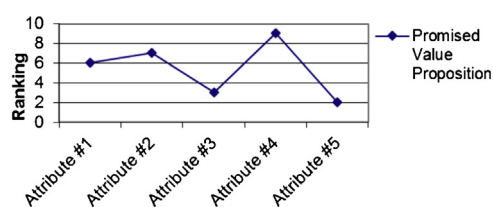
customers, and (3) the future value proposition of the firm's strongest competitor. For the sake of simplicity, the article makes two assumptions: (1) The focal firm only sells one offering that is targeted at one customer segment. If the focal firm has several offerings or targets the same offering at different customer segments, then the firm's managers will need to draw a separate strategy canvas and value curves for each offering and/or customer segment targeted. And (2) managers are able to rank order the attributes that consumers use to make purchase decisions from most to least important. If there are significant differences in the importance of the purchase attributes in the eyes of consumers, the firm's managers need to weigh each of the attributes before using the value curves to identify and improve issues with the current value proposition and its delivery.

3.1. Value Curve #1: The value proposition the firm promises to its customers

The firm's managers need to develop a strategy canvas that includes each of the attributes that target customers use to make their purchase decisions on the horizontal axis. It is important to have senior managers from different functions working on this task to ensure that all the key purchase attributes are identified and prioritized. If available, facilitators can provide the managers with data on consumer preferences from customer surveys. The end result of this process is a ranked list of attributes that consumers use to make their purchase decisions. This list of customer purchase attributes is inserted on the horizontal axis of the strategy canvas, starting with the attribute that was ranked most important to the target customers' purchase decisions, which is typically price.

The next task is to have managers rank the firm's promised customer value proposition using the attributes listed on the strategy canvas's horizontal axis. The end result is a strategy canvas with one value curve that illustrates the firm's promised value proposition (see Figure 2).
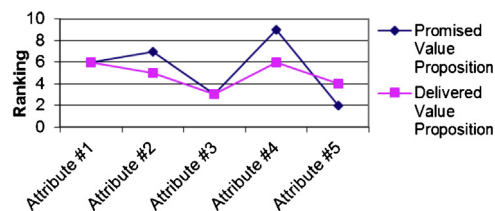
3.2. Value Curve #2: The value the firm currently delivers to its customers

The next step is to ask managers to map the value the firm is currently delivering to its customers on a normal day—for example, the value customers typically receive from the firm's offering. Research shows that managers typically overrate their firm's performance (D'Aveni, 2007), so the facilitator should attempt to provide managers customer data from consumer surveys, industry benchmark data, online review sites such as Yelp, or rating agencies such as *Consumer Reports* and J.D. Power. At the very least, the facilitator should have individuals from different areas of the firm placed in different groups in order to discourage group think. For example, a group consisting of sales, R&D, manufacturing, HR, and logistics personnel is more likely to be objective in their assessment of the firm's delivery of its value proposition than a group solely consisting of sales staff. Another way to corroborate the senior managers' ratings for each attribute of the delivered value proposition is to have a group of middle managers also rank each of the attributes on the firm's delivered value curve, without being informed of the senior managers' ratings in advance. The result of this step is a strategy canvas with two value curves, the first representing the promised customer value proposition and the second representing the value that customers received during a typical interaction with the firm (see Figure 3).

The differences between the promised value proposition and the delivered value proposition represent execution gaps. In Figure 3, if the firm wants to live up to the promise made to customers in the value proposition, and none the least increase its performance, the firm needs to invest in improving the delivery of attributes where there are negative gaps, such as in Attribute #2 and Attribute #4. It also needs to review the investment in attributes where the firm is over-performing relative to its promised value proposition. For example, again using Figure 3, the firm is over-delivering Attribute #5 relative to its promised value proposition. Managers should evaluate whether it is best to reduce

Figure 2. Strategy canvas with promised value proposition

Figure 3. Strategy canvas with delivered value proposition

investment in this attribute to reduce cost. Alternatively, managers should investigate if these attributes provide the firm an opportunity to further differentiate its offering. If yes, it should update the promised value proposition and marketing thereof to reflect the higher levels of value delivered to its target customers.

While drawing the first two value curves helps to identify critical issues with the firm's delivery of its value proposition, the analysis is incomplete, as it has not evaluated the appropriateness of the firm's value proposition. In order to assess if the firm's current value proposition is the right one going forward, the firm's managers need to draw a third curve that represents the future value proposition of their strongest rival.

3.3. Value Curve #3: The future value proposition of the firm's strongest competitor

While it is tempting to have the third value curve represent the current value proposition of the firm's strongest rival, this leaves the firm exposed to two issues: the Red Queen Effect and changes in the competitive macro environment that may impact the validity of their value proposition in the future. The Red Queen Effect, named after the Red Queen's futile race in *Through the Looking Glass*, is most salient in industries where firms continually update their customer value propositions in an effort to stand out from their competitors (Barnett & Hansen, 1996; Derfus, Maggitti, Grimm, & Smith, 2008). The implication of the Red Queen Effect is that the focal firm must continue to improve its value proposition as much as its rivals just to stay in the same spot. And if the focal firm wants to make headway relative to its rivals, it needs to improve its customer value proposition more than its rivals. Asking managers to draw a value curve that represents their strongest rival's future value proposition helps mitigate this issue.
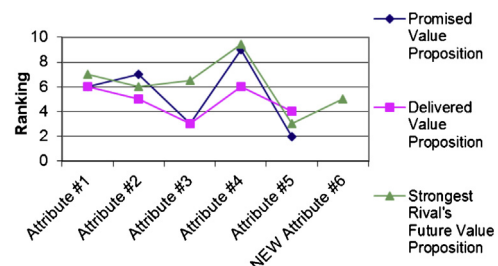
Firms' value propositions are also vulnerable to factors such as changes in technology, consumer preferences, governmental regulations, demographics, enhanced buyer power, or increased attractiveness of substitutes. For example, technological changes can increase the attractiveness of substitutes, as VHQ and Blockbuster found out. VHQ and Blockbuster were competing video rental chains that offered physical rentals of DVD movies; meanwhile, Netflix offered an online video rental service. By focusing on competition from VHQ, Blockbuster missed the threat to its value proposition posed by Netflix's substitute offering. Taking macro environmental trends into account helps mitigate this issue.

In order to address these two issues, managers should identify their firm's strongest competitor and then describe its future value proposition using attributes on the strategy map as a starting point. If managers struggle to come up with a future value proposition using the current rivals as a foundation, they should devise a value proposition for a formidable yet imaginary future competitor. As part of this process, managers should undertake an analysis of macro competitive trends using Porter's (2008) Five Forces and PESTEL to ensure they have evaluated how competition may evolve in the future. Once managers have come to an agreement on the future value proposition of their strongest rival, they should add any new attributes that are forecasted to be introduced to the horizontal axis of the strategy canvas and then rank each attribute of the strongest rival's future value proposition.

Adding the third value curve, which represents the future value proposition of its strongest rival, helps managers identify if their firm has the right value proposition. The gaps between the third value curve and the firm's current promised value proposition clearly illustrate where the firm needs to improve its value proposition if it is to remain relevant in the eyes of consumers in the future (see Figure 4). In Figure 4, the strongest rival's future value proposition is forecast to have a slightly lower price but offer more value in Attribute #3 as well as offering target consumers new value through the addition of New Attribute #6. If the firm wants to remain competitive, its managers need to close the gap in Attribute #3 and find a way to respond to the value added by New Attribute #6, either by introducing a similar purchase attribute or adding new attributes to its updated value proposition.

To generate insights as how to best improve the firm's current value proposition, managers may want to apply Kim and Mauborgne's (2005) eliminate-reduce-raise-create grid to structure their analyses: Firms can improve their value proposition by *eliminating* attributes that its buyers no longer value or by *reducing* one or more attributes that now hold less appeal to its target consumers.

Figure 4.   Strategy canvas with strongest rival's future value proposition

Managers can also look at *raising* the value offered by one or more attributes in the current value proposition or *creating* new sources of buyer value by adding new purchase attributes. To generate insights on which attributes to eliminate, reduce, raise, or create, managers can analyze customer feedback or monitor social media for comments relating to the firm's value proposition. Managers can also use crowdsourcing sites, such as InnoCentive or Innovation Exchange, to invite the public to contribute ideas on how to improve the firm's value proposition. Uncovering new bases of competition is challenging, especially if consumers themselves cannot clearly elucidate how the product could be improved. To combat this, P&G uses ethnographic methods including going into consumers' homes to observe how consumers interact with the product to gain insights as to how the offering can be improved (Simons, 2014).

After debating which attributes to eliminate, reduce, raise, or create, managers should conclude by drawing a new value curve that represents the new, revised customer value proposition promised to the firm's target customers. The last step is to ask managers to propose initiatives to over time close the gaps, if any, between each attribute on the current value curve and the new value curve. Managers may use the value curves to help prioritize which initiatives to fund. When evaluating each of the proposed initiatives, managers should take into account the importance of the attribute to the customer, the amount the proposed initiative will close the gap between the current value curve and the new value curve, and the cost of the initiative. After the initiatives are vetted and approved, each of the initiatives need to be funded and monitored.

4. Strategic value curve analysis in practice: Columbian Golf and Country Club

The following case example is derived from our consulting practice, although we have altered the name of the organization and some of the data to respect the client's confidentiality. The first author was hired by the board to facilitate a strategic review of a prominent golf and country club. The process started by reviewing the Columbian Golf and Country Club's (CGCC) mission and vision. Once the board re-affirmed its commitment to achieving CGCC's vision of being the best golf and country club in the five contiguous counties, the strategy review proceeded using the strategic value curve analysis as the basis for the review.

4.1. Value Curve #1: The CGCC board draws the value proposition promised to its members

The facilitator divided the board into groups and asked each group of board members, who were active playing and social members in the club, to generate a list of reasons why they joined and remain members at CGCC rather than transferring their membership to one of the many competing golf and country clubs in the five county area. Once the groups had a preliminary list of attributes they believed were important to attract new members and retain existing members, the facilitator asked the groups to assess these attributes against the club's marketing materials and then prioritize these. After discussion within their small groups and then in the larger group, the board developed a list of attributes to explain why potential members decide to join one golf course over another. The top five member attributes, listed in order of importance, are shown on the horizontal axis of Figure 5: Membership Dues—members' initiation fees and monthly dues; the Course Playability and Condition—the quality of the course and how challenging it is to play; Access to the Tee—how easy it is to get preferred tee times; the Club Facilities—the changing room, pro shop, and driving range; and the Dining Experience—the quality of the dining at the club. Using the judgment of the board members and the club's current marketing materials as a basis, the board then drew a value curve for the club's promised value proposition by ranking each of the member attributes on a scale of 1 to 10. The

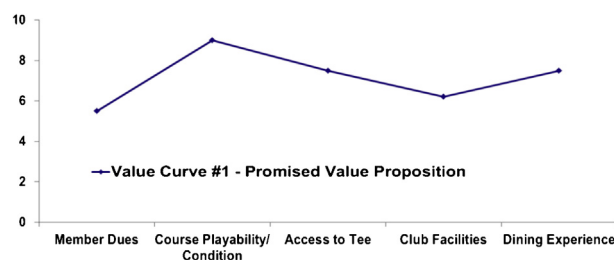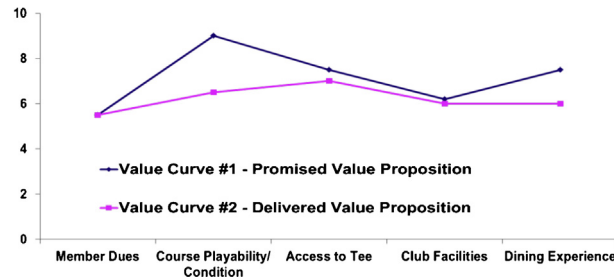**Figure 5. CGCC's promised value proposition**

Figure 6.   CGCC's delivered value proposition

result is "Value Curve #1 — Promised Value Proposition" (see Figure 5).

4.2. Value Curve #2: The value normally delivered to CGCC's members

For the second step, board members were asked to draw a curve that reflected the value that a CGCC member typically receives (see Figure 6). While some board members suggested it would have been advantageous to survey the club's members to obtain this data, in the interest of time and cost, the board decided that since they were all active players, they could act as a representative sample of the club's members. In order to check the veracity of the board members' rankings of the value normally delivered and the value promised, the facilitator later performed the same steps with members of the club's management team and found that the results for value curves #1 and #2 were similar for both the board and its management team.

The gap between the first value curve, the value promised to CGCC's members, and the second value curve, the value a CGCC member typically receives, clearly demonstrates the execution gaps. These gaps indicate the areas where CGCC needs to improve the delivery of its customer value proposition. While closing the gaps between value curves #1 and #2 will improve CGCC's current performance in the eyes of current and potential members, it does not guarantee that CGCC has the right customer value
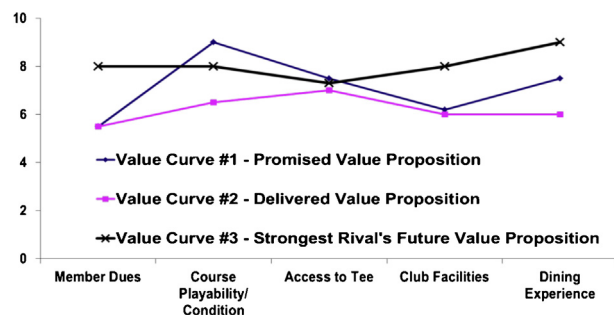
proposition—the value proposition that will allow CGCC to fulfill its vision of remaining the leading golf and country club in the five county area. In order to assess if CGCC has the right value proposition for the longer term, its directors needed to draw a third value curve on the strategy canvas.

4.3. Value Curve #3: Strongest rival's future value proposition

For the third value curve, the facilitator asked the board to identify CGCC's strongest rival in the five county area and forecast what its customer value proposition would look like in 3 to 5 years (see Figure 7). This led to a heated discussion of the strongest rivals' capabilities and the key macro trends that may impact the sport of golf in the near term. The key trends identified included developments in golf equipment and course maintenance, changing demographics and attitudes toward golf, pressure from environmentalists to reduce the use of pesticides, and the impact of climate change on the quality and length of the golf season. The discussion led to drawing a third value curve, where the strongest rival was estimated to have lower membership dues than CGCC in the future, so the strongest rival is rated higher on this attribute (see Figure 7).

The gaps between the third curve, the future value curve of its strongest rival, and the first value curve, the value currently promised to CGCC's

Figure 7.   Strongest rival's future value proposition

members, means that even if CGCC executes its customer value proposition flawlessly, it will still be surpassed as the best golf and country club within the next 3 to 5 years by its strongest rival. Not only will it need to increase the course playability up to the level promised in the customer value proposition, but it also needs to invest in improving its clubhouse facilities and the clubhouse dining experience in order to best its strongest rival going forward.

Drawing the third value curve led the board to see that it needed to improve its member value proposition. In order to determine a member value proposition that will allow CGCC to prosper in the longer term, the board reviewed the macro environmental discussion to see if there are any other factors that may influence the golf and country club members' future membership choices. The board revisited the discussion of demographic challenges, noting a need to continue to encourage young members to begin playing, and the potential impact that environmental regulations may have on maintaining the course conditions at the level promised. The most important discussion centered on the ability of new golf balls and golf clubs to increase the driving distance of an average recreational player. This discussion led to a proposal to increase the value offered by the Club Facilities attribute by lengthening the driving range. Once they finished the discussion of external factors, the board then drew a new value curve representing CGCC's new value proposition and reviewed it relative to the other curves.

Satisfied that the new member value proposition would allow them to remain the best golf and country club in the five county area, the board then asked the management team to suggest initiatives to close the gaps between the value currently delivered to a CGCC member and the new, updated value curve in the shorter and longer terms. The board evaluated each of the initiatives proposed by management based on the following: (1) the contribution of the attribute to the value received by members, where attributes that were ranked higher by members received priority; (2) the estimated improvement in the attribute, where initiatives that provided the most improvement to the member value proposition were prioritized; and (3) the cost to implement the initiative. After the board discussed and approved the proposed improvement initiatives, the board then reviewed the curves again to ensure that after the initiatives were implemented they had designed a winning value proposition for the next 3 to 5 years and the club would be able to consistently execute at the level promised.

5. Advantages and limitations of strategic value curve analysis

It is difficult for managers to know whether they have the right value proposition and the right process to deliver the value proposition. Examples such as Blockbuster, Blackberry, and Nokia underscore the repercussions if managers do not quickly identify and address problems with the firm's customer value proposition. The strategic value curve analysis tool outlined in the article is a straightforward method that managers can use to evaluate and improve their customer value propositions and delivery processes.

The advantage of this tool is that it is customer-centric, externally focused, easy to employ, and provides the firm's senior management team and its board a target value proposition that it can use to monitor the firm's progress. The main disadvantage of the tool is that it only diagnoses and helps repair problems relating to effectiveness of the firm's customer value proposition and its delivery. The tool does not diagnose the efficiency of the processes that deliver the customer value proposition. In addition, we would caution managers to use external data to support identity and ranking of each of the firm's customer value proposition's attributes, where possible. If managers use the wrong attributes or mistakenly over-rate the customers' perceptions of the value delivered, it will struggle. Managers also need to remain attuned to enhancements to rival's and substitute offerings, improvements in production technologies, and changes in consumer tastes so that they correctly forecast the future value proposition of their strongest rival.

References

Barnett, W. P., & Hansen, M. T. (1996). The Red Queen in organizational evolution. *Strategic Management Journal, 17*(7), 139—157.

D'Aveni, R. A. (2007). Mapping your competitive position. *Harvard Business Review, 85*(11), 110—120.

Derfus, P. J., Maggitti, P. G., Grimm, C. M., & Smith, K. G. (2008). The Red Queen Effect: Competitive actions and

firm performance. *Academy of Management Journal, 51*(1), 61—80.

Kim, W. C., & Mauborgne, R. (2005). Blue Ocean strategy: From theory to practice. *California Management Review, 47*(3), 105—121.

Porter, M. E. (2008). The five competitive forces that shape strategy. *Harvard Business Review, 86*(1), 78—97.

Sheehan, N. T., & Vaidyanathan, G. (2007). Using a value creation compass to discover "Blue Oceans." *Strategy and Leadership. 37*(2), 13—20.

Simons, R. (2014). Choosing the right value customer: The first step in a winning strategy. *Harvard Business Review, 92*(3), 49—55.