VALUE CURVE

A tool that helps you differentiate from your competitors and make them irrelevant.

INNOVATION TOOLBOX

INTRODUCTION

To introduce the Value Curve [1], let us talk show-biz. In 2006, during the 51st edition of the world's largest international song contest, the Eurovision, something unexpected happened. Up until then, Finland had always ended last. Now they won for the first time and they got more votes than anyone else in the fifty year history of this annual musical event. Their horror-rock performance took the audience and voters by storm.

Official figures indicate at 200 million people all over the world tune in to see the final.

Over the years, an informal code for the performances had emerged in which all followed a pattern of sweet singing, soft melodic arrangements, graceful choreography, glamorous scenery and not least, beautiful artists. The Finns broke the code and created something radically new, different from all other contestants (see ratings in Figure 1). They actually under-performed according to the code. But instead, they added elements of surprise, even shock, attitude, energy and a bit of irony and humour. It paid off big time – being that different made all their competitors irrelevant.

This is what innovation is all about; to maximise differentiating values. The Value Curve helps you to visualise, analyse and change the values of your offering. Each offering has its own curve profile, more or less different from the competitors and other alternative offerings. By benchmarking curves, analysing the gaps and alignments, experimenting with alternative profiles, you can optimise the performance of your offering.

The Value Curve is a plot of customer values for your offering based on a set of key success factors (Figure 2). The tool became well known in the best-selling book Blue Ocean Strategy [2] where the title refers to the possibility of creating a 'blue ocean' of opportunity by crafting a unique Value Curve; instead of 'swimming' in the 'blood-red ocean' of constant and debilitating competition (blue vs. red curve in Figure 1). Please note that Value Curve is called 'Strategy Canvas' in the book.

Although its principles are simple, it is a powerful tool to use throughout the innovation process to ensure strong differentiation and an optimised value creation.

DESCRIPTION

Purpose

Provide a visual overview of how competing offerings perform in terms of value creation relative to each other.

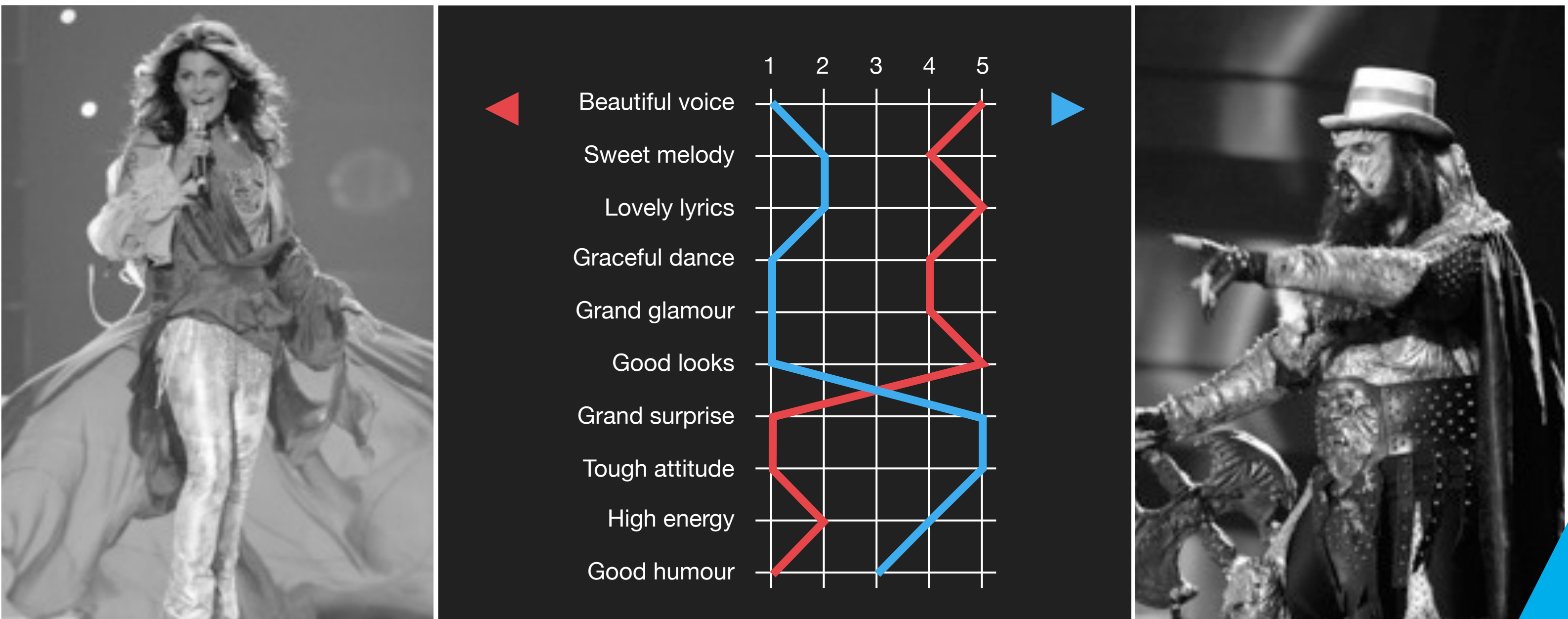
Identify and analyse points of difference and parity for the purpose of creating a novel offering and crafting a compelling value proposition.

Trigger a strategic discussion about differentiation of a business and how to optimise its value creation.

Principle

The Value Curve is a plot of how an offering's value creation is rated based on a set of key success factors.

Figure 1 – The Value Curve can be used to visualise, analyse and tweak the profiles of two or more offerings, here exemplified by Sweden's traditional contribution (left picture) vs. Finland's unique horror-rock performance (right picture) in the Eurovision Song Contest in 2006. The Finns broke the established code, took the audience by storm and won the final by making the traditional performances completely irrelevant to the audience and the voters.



Procedure

The procedure for creating a Value Curve is in principle simple and straight forward – yet quite challenging. The difficult part is to establish an 'outside-in' perspective and acquire a deep insight into your customers' spoken and unspoken needs. In the procedure outlined below, it is assumed that you have the necessary information about your customers at hand.

1. The first step is to identify and list the key success factors of your offering. These are the factors you rely on to conduct your business based on the offering and compete for your customers' favour. Examples of key success factors are: high quality, strong customer service, high reliability, strong brand or low cost of ownership. Spend some time to really think about what factors are critical for you and your customers – both from a physical and emotional perspective. It is important that the factors are as specific as possible. 'High quality' or 'strong sense of safety', for example, can be open to interpretation and subjective judgement, while 'low cost of ownership' or 'short lead-time' is more specific and can be measured in monetary or efficiency terms. Clarify each factor, one-by-one, and eliminate all ambiguities. Make a shortlist of around ten factors that you believe matter the most to your customers and the success of your offering (Figure 1 and 2).

2. The second step is to draw the Value Curves. But, first you have to rate and compare your offering with serious alternatives, both external and internal to the customer. This rating, from one for low, to five for maximum value, reflects how well the competing offerings deliver customer value – factor-by-factor. It requires a deep understanding of the customers and their business to do the rating properly. Make sure you involve both internal and external experts, including your customers, in the rating. In the Eurovision case (Figure 1), the rating for the Finns is high on 'tough attitude', whereas for the Swedes, the rating is low, since their contribution did not offer any toughness. By connecting the rating for each competing offering with a line you get their respective Value Curves (Figure 2).

3. With the curves drawn, the next step is to analyse and compare them. You begin with analysing what characterises each curve separately. You may ask yourself: If we are low on some factors, are we bringing enough value? Or vice versa, if we are high on many factors, are we over-delivering? What is the optimum mix of high and low ratings on our market? Are some factors considered to be 'hygiene factors', just requiring a good enough rating? What factors are 'mission critical', requiring a top rating? Twist and turn your questions and answers in search for a good understanding of what the curve profile should be to be relevant and novel in the eyes of the customer. By comparing the curves

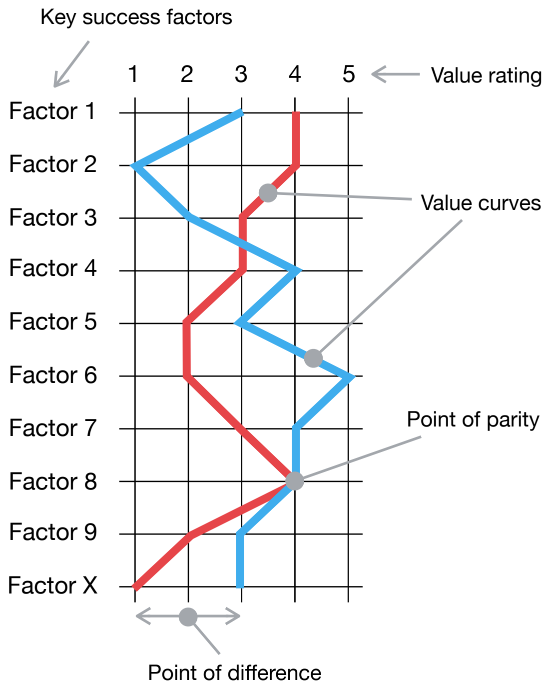


Figure 2 – The Value Curve represent a plot of how an offering's value creation is rated based on a set of key success factors. It can be used to analyse two or more offerings' respective value creation as well as their parities and differences.

you can identify points of difference and parity (Figure 2). It enables you to better understand how to profile and position your offering to be different and competitive.

4. The previous step gave you a good understanding of your offering compared to one or more alternatives. Now it is time to experiment with different curve shapes. Ask yourself: What are the consequences of shifting the curve or parts of it? What is the optimum profile in the eyes of the customers? What approach do we use to maximise the differentiation and value creation? How do optimise the cost structure of our offering? Challenge yourself by taking the curve to extreme positions and shapes. To your help you can use the 'Four Action Framework' [2]; a technique based on four strategic actions (Figure 3):

   - *Raise* – What factors can be raised above industry standard?
   - *Lower* – What factors can be lowered below industry standard?

- *Add* – What factors can be added, that never have been offered before?
- *Remove* – What factors, that are taken for granted, can be removed?

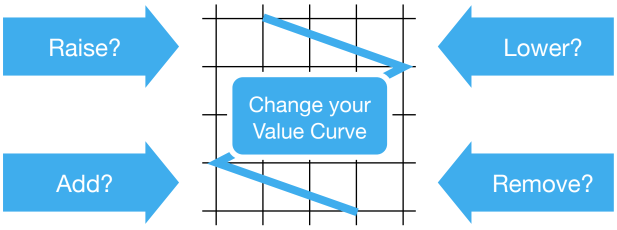


Figure 3 – The Four Action Framework helps you to challenge assumptions and standards, break down preconceived thinking and reshape your Value Curve – all for the purpose creating a novel offering.

When changing your curve, identify key points of difference and points where parity is relevant (Figure 2). For each new profile of interest, develop a rudimentary value proposition and a simple business case.

5. Next you need to select a curve profile as a basis for your new offering. This begins with clarifying your objectives by answering questions like: What profile delivers most value to the customers? How different do we need to be compared to where we are today and compared to competing offerings? By changing the profile of our curve, in what way do we support our business goals? Can we handle the risks that come with the change? Your answers to such questions will give you the criteria for selecting the most promising curve. Make your choice by matching the criteria with the value propositions and business cases for your optional Value Curves.
6. With clear objectives in place and a chosen Value Curve, the final step is to formulate a strategy for realising your new offering. The strategy derives directly out of the gaps between your current curve and your new curve. Factor-by-factor, analyse the gaps and determine the strategic actions you need to take to switch from your old curve to the new. Group the actions into strategic areas for which you can assign responsibilities and resources. With the strategy in place, you have taken the first steps towards making your competition irrelevant.

Comments

Here are some tips and tricks to consider when developing a Value Curve:

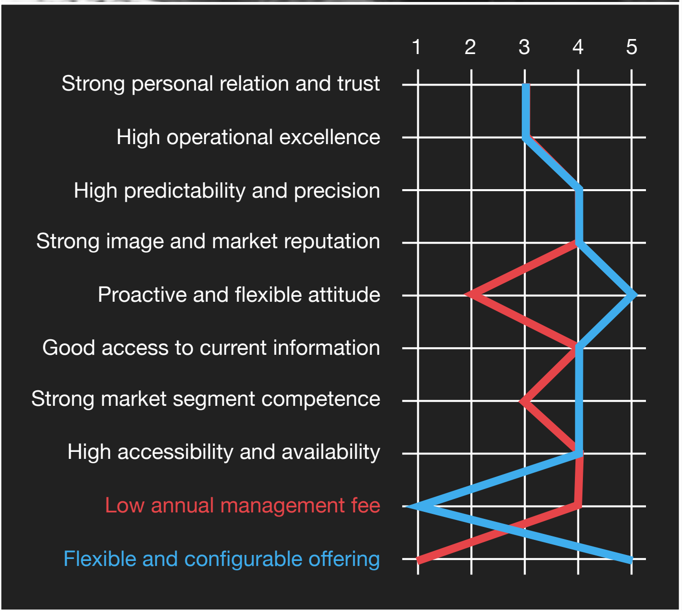
- From the first step to the last, it is crucial to firmly establish and maintain an outside-in perspective. Your goal is to excel in being relevant and novel in the eyes of your customers. Put yourself in the shoes of the customer and throughly examine your Value Curve – it should in all aspects hold for scrutiny from that perspective.
- Begin developing your Value Curve as early as possible during the innovation process; even as early as when you are formulating the objectives of an innovation project. It forces you to consider the level of differentiation and value creation from the very beginning.
- The Value Curve is not going to be perfect during the early phases of innovation – how can it? Instead, let it evolve over time and as you gain more knowledge, refine your curve. Developing a Value Curve is an iterative procedure.
- The Value Curve can be used for a single offering such as a product or service, a business process, a function in the company; or for the business model of the company or the organisation as a whole. However, the tool is best used when focusing on a single abstraction level at a time.
- The beauty of the Value Curve is the simple graphical presentation of customer value and differentiation – it speaks to inventors, decision-makers, investors, customers and other stakeholders. However, be prepared to explain it and the things that influences the shape of the curve. Document all information that led you to develop and propose a specific Value Curve.

APPLICATION

The Value Curve is a tool to use for various purposes, including:

- Identify key success factors for a business and their relative importance.
- Benchmark competitive offerings and analyse differentiation as well as added value.
- Craft value propositions that are relevant and novel in the eyes of the customers.
- Ideate by challenging industry assumptions and standards.
- Trigger strategic discussions about innovation scope, objectives and strategies.

The Value Curve is, despite its broad field of application, a simple tool that fits well in workshop settings for 'strategic thinkers'. The strength comes from its simplicity and the visual impact that triggers strategic discussion about an offering and how to develop, market and deliver it.



Wilhelmsen Ship Management – In 2007, Wilhelmsen Ship Management, a company within Wilh. Wilhelmsen – one of the world's largest shipping corporations – provided technical management, supply of consumables and crewing to ship owners and their fleets.

At the time, the market for such services was saturated and characterised by standardised offerings and fierce competition. The fees for managing ships were dropping and consequently the margin in Wilhelmsen's business. In this situation, Wilhelmsen's management team decided that something had to be done and that radical new thinking was needed. They launched a project with the purpose of reinventing the business.

One of the first exercises the project team did was to apply the Value Curve to the ship management offering. They listed the success factors, rated them and challenged them by removing and adding. They experimented with different curve profiles and suddenly they realised that the solution was quite simple.

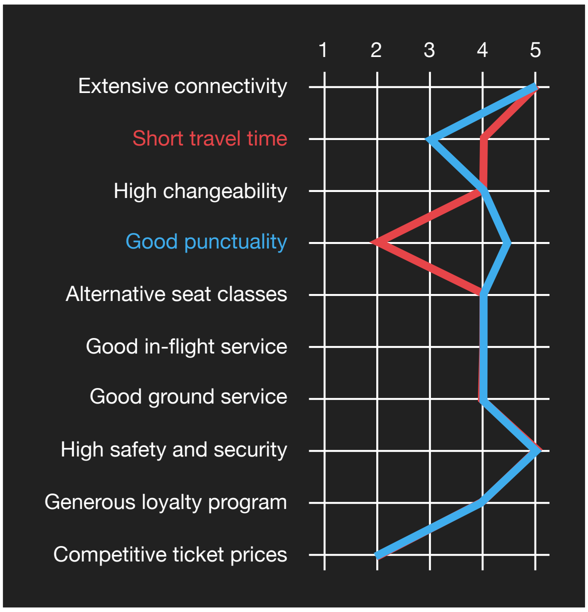
Everyone in the market was competing on cost. By removing the focus on the annual management fee (red curve) and adding flexibility and configurability (blue curve) to the offering, Wilhelmsen created a novel offering to the market. An offering where ship owners could choose what to buy and only pay for what they used, not having to commit to a full and standardised package at an annual fixed fee.

In only two years' time this completely changed Wilhelmsen Ship Management's business, making it one of the most profitable companies in the Wilh. Wilhelmsen corporation and the industry.

SAS – In 2009, Scandinavian Airlines was for the first time named the most punctual airline in Europe, with 88.22% punctuality (blue curve). They partly achieved this by a slight extension of the scheduled flight time (red curve), something they previously wanted to keep as short as possible, and thus making it more likely for their flights to arrive on time.

Which one is the strongest proposition? "We'll fly you there in the shortest possible time!" or "We'll fly you there on time!"

SAS optimised its offering by lowering a key success factor for the benefit of another – making them different and more relevant to the customers.



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[1] W. Chan Kim, Renée Mauborgne – Value Innovation – Harvard Business Review, 1997

[2] W. Chan Kim, Renée Mauborgne – Blue Ocean Strategy – Harvard Business School Press, 2005