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Strategic value curve analysis: Diagnosing and improving customer value propositions

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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.

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

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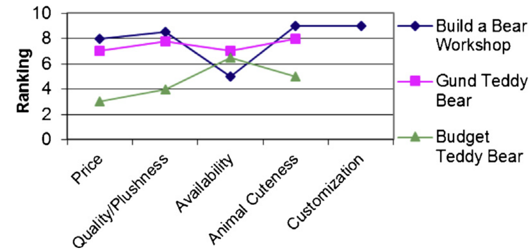
product is introduced into the marketplace, customers then make their purchase decisions based on their analyses of which competing value propositions best meet their needs.

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