Delivering Profitable Value

A Revolutionary Framework to Accelerate Growth, Generate Wealth, and Rediscover the Heart of Business

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Introduction – Beyond the looking glass 1

The Introduction challenges the thinking manager to pause and ask, 'Does my organization often look for strategic opportunity in the wrong places? Does it seek to understand and improve customers' real experiences or does it gaze inward, as if into a managerial mirror?' For the manager who may answer even a qualified 'yes' to the latter part of that question, the challenge is getting the organization to stop contemplating itself and to start formulating strategy based on profitable delivery of superior value to customers. Unfortunately, conventional management theory (including the fields of strategy and marketing) does not solve but actually worsens this problem by encouraging managers to venture further into the managerial mirror. Managers are invited to consider a revolutionary but realistic alternative philosophy, framework and methodology for accelerating profitable growth: Delivering Profitable Value (DPV). An example of a turnaround in a Hewlett-Packard business introduces some of the essential DPV concepts. The introduction also provides a sense of the resulting experiences organizations can expect from applying DPV. Finally, the introduction outlines the book's structure, the authority and experience on which it is based, and the kind of real world examples used to illustrate its argument.

Part One – Understand the Heart of Business: What Delivering Profitable Value is 17

Chapter One – Internally-Driven and Customer-Compelled Management Aren't Value-Delivery Focused 18

Competent managers, who regularly compare their product and organization to competitors and earnestly solicit customers' opinions, can be deceived into assuming that they are adequately externally focused. This chap-
ters. Organizations now must write and commit to real business plans. These are structured explicitly by the value delivery framework and carry the power of senior management authority behind them. They are not peripheral exercises, but rather must determine the organization's structure, its success criteria, and all its resources, processes, and the development of capabilities. Managers are shown how to implement chosen VDSs and then to monitor, measure, and improve their design and implementation. The underappreciated power of realistically testing a VDS is illustrated with the New Coke blunder, seen in a more sober light than usual. Finally managers are urged to face again the fundamental questions of Delivering Profitable Value: to start the whole creative and analytic search for strategic insight all over again. For DPV is not a once-off process but a way of business life.

Chapter Twenty – What to Do Monday Morning? 282

A practical starting point, from which to start making an organization more capable of Delivering Profitable Value, is offered. Managers are urged to assess the extent to which their organizations understand and have answered the demanding questions of DPV, versus the extent to which they continue to rely on the product-supply-focused paradigm and its internally-driven and customer-compelled thinking. Then, they are urged to act – to muster the will to pursue breakthrough profitable growth by Delivering Profitable Value.

Conclusion – Lead Beyond a Few Improvements, Build a Great Company: Institutionalize DPV 289

In conclusion, managers are challenged to be ambitious, to insist on truly integrating the commonsensical principles of DPV. An example of one great company’s success in truly institutionalizing many of these essential tenets of business philosophy over the long term is presented as evidence that this ambitious goal can be achieved. Managers are reminded that they must only stay focused on the few key questions that really matter in conceiving and leading businesses.

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ter urges managers to consider the possibility that their culture may none-theless be overly fixated on the product-supply functions of developing, producing, and selling products and services rather than focused on understanding and profitably delivering customer experiences of superior value. This misdirected focus is an astoundingly common occurrence in organizations filled with intelligent, educated, and amply advised management. This chapter asks managers to consider this question: does this organization unconsciously ignore the true determinants of business success by conforming to the two dominant and fundamentally flawed models of management practice, the internally-driven and the customer-compelled? These are illustrated by the spectacular failure of Xerox in PCs, and the initial failed attempts to stop a business decline in one Weyerhaeuser business unit. In contrast, successful application of Delivering Profitable Value is illustrated by the latter's subsequent turnaround and, in greater detail, by an unusual model of success within the embattled Eastman Kodak.

Chapter Two – Customers' Resulting Experiences: Essence of a Real Value Proposition

This deceptively simple but incredibly powerful concept is explained, illustrated and defined in rigorous, actionable terms. This is the foundation upon which a wholly new perspective for thinking about business will be built. The rich and complex world of customers' resulting experiences, a world altogether different in kind and importance from the tired concepts of 'customer needs, requirements and expectations, and product benefits,' is revealed.

Chapter Three – The Good, the Bad and the Unintended: Every Business Delivers a Value Proposition

This chapter holds the complete definition of a real value proposition and discusses how fundamental it is to accelerating profitable growth. The VHS/Betamax example illustrates how unconscious of their value propositions managers can be. Accordingly, this chapter explains how to identify the propositions actually delivered. Some managers will assume value propositions concern only consumer businesses, but this chapter shows the equal relevance of the concept to industrial and commodity businesses.

Chapter Four – To Choose or Not to Choose a Complete Value Proposition, That Is Management’s Question

This chapter discusses what must be done to choose a value proposition. Managers will easily recognize the difference between talking about cus-
tomers and genuinely making a strategic commitment – the choice of a value proposition. Some propositions, including many winners, are tradeoffs – they include inferior experiences. Genuinely choosing a value proposition entails decisions that go beyond defining the customer and the resulting experiences they will derive. An industrial lubricants value proposition and numerous other industrial and consumer examples illustrate choosing a complete value proposition. The chapter provides practical tools for making this fundamental strategic decision.

**Chapter Five – Some of What a Real Value Proposition Isn't**

This chapter briefly dispenses with many of the concepts that can be confused with a value proposition. These include positioning, slogan, USP, mission statement, values statement, strategic intent, value discipline, and value added.

**Chapter Six – Playing to Win: Choose Good Value Propositions**

This chapter discusses choosing winning value propositions. Numerous examples show why organizations must deliver superior experiences to customers, rather than focus on having a superior organization, product, or competencies. Digital Audio Tape and several other ventures are shown to have failed, despite 'superior technology,' because they offered an inferior value proposition.

**Chapter Seven – Provide and Communicate: Delivering Is More Than Lip Service**

The purpose of choosing a (real) winning value proposition is to profitably deliver it. This perspective is quite different from the traditional view of a business as an entity that supplies a product. The chapter defines and illustrates (with Service Masters, Volvo, and others) the concepts of providing and communicating each resulting experience and argues that managers must think 'forwards,' beginning with customer experiences and ending with business design. This perspective is contrasted with employing the conventional backwards approach, which begins with internal resources or imagined advantages, advances to developing products, and ends with using marketing to convince customers to want those products. Advertising is discussed as an example of functions dominated by astoundingly internally-driven thinking and further misdirected by customer-compelled input. Much
advertising is lauded as creative but demonstrably fails to work, since it does not help communicate a superior value proposition. The converse also holds. Illustrations are given from Nissan, Nike, P&G, NEC, British Airways, and others. A summary chart contrasts the value-delivery and product-supply focus.

**Chapter Eight – Design a Business Forwards:**  
the Value Delivery System

Chapter Eight introduces and illustrates in depth the central DPV framework. Southwest Airlines has been much discussed, but its real strategy and that strategy’s derivation have not been coherently explained. They are here, through the framework of the value delivery system (VDS). Southwest, Sensomatics, Sony Walkman and other examples defy the conventional logic of management but beautifully and simply confirm that of DPV.

**Chapter Nine – Staying Alive: Adjust and Recreate Your VDS**

Here the reader learns to use the value delivery system (VDS) as a dynamic framework by which to flexibly reinvent one’s business in response to a competitive and shifting environment. The Checklist for a Winning Business is presented. The means for courageously changing a business are demonstrated so that managers can avoid falling into the comforting but ultimately suicidal habit of ‘leveraging’ the organization’s strengths until it is unable to compete. Small Glaxo’s attempt to garner a small market share of antiulcerants, then dominated by SmithKline, is recognized for the tour de force that it is: a brilliant redesign of the VDS. Organizations must reinvent their businesses, but not in their own image. This chapter also distinguishes between the VDS framework and the Porter Value Chain, which is easily confused with but fundamentally different from the VDS framework.

**Chapter Ten – and Now...Will the Real Customer Please Stand Up? The Value Delivery Chain**

The complex, interconnected relationships among an organization, its customers, their customers, and others are made manageable by the value delivery chain framework. Unlike the conventionally accepted approaches of the ‘supply chain’ and ‘value chain,’ this DPV framework helps managers prioritize these entities by distinguishing the all-important primary entities from other supporting entities. The long chains of an LED maker, a Weyerhaeuser business, and a plastics manufacturer reveal that the primary
Chapter Sixteen – Stop Listening: Become Customers to Discover What They Really Want 216

The basic principles of the intuitive but systematic and fact-based method of becoming customers are summarized here. An illustration of discovering unexpected strategic opportunity in Kodak’s data storage business is given. Despite the resources expended in the name of marketing research, satisfying customers, and competitive analysis, most such exercises do not actually lead organizations to an adequate understanding of customers’ experiences for the formulation of business strategy. Other illustrations are drawn from HP, Polaroid, P&G, industrial lubricants, Honda and a Caribbean systems integrator.

Chapter Seventeen – Virtual Videos of the Customer’s Life: Structured Method for Becoming the Customer 228

Examples of the ‘virtual video’ methodology for a UK petrol/gasoline distributor, for Australian camera specialty retailers and for HP order-fulfillment are offered. To become highly competent at developing innovative value delivery strategies, managers must learn to understand and analyze customers’ real behavior and experience to the depth of these examples and beyond. This chapter offers pragmatic guidelines for conducting this unconventional but dramatically more productive form of market-space analysis, both for application to business customers and to consumers.

Chapter Eighteen – What’s Competition Got to Do with It? Understanding Customers’ Alternatives 254

Here, competition takes its place within value delivery strategy formulation. This chapter exhorts managers to stop asking the traditional competitive questions: ‘What will competition do?’ and ‘What can we do better?’ Instead, DPV urges managers armed with the knowledge of the potentially most valuable experiences to ask, ‘How well could competitors and other alternatives deliver these?’ FedEx’s Zap Mail debacle is an illustration. The why and how of making virtual competing videos of the customer’s life are discussed. Competitive analysis concludes becoming the customer.

Chapter Nineteen – Make Disciplined Choices: Implement VDS-Structured Business Plans 260

The final step in formulating strategy in DPV terms is to articulate the disciplined choices produced by the analysis discussed in the previous four chap-
entity can be further removed than it might at first seem. The case of Fidelity Investments further demonstrates the dramatic impact of understanding the identity of the real customer – the primary entity in the value delivery chain.

Chapter Eleven – Primary and Supporting VDSs: Control the Chain Reaction 159

This chapter discusses the crucial issue of enlisting the coordinated support of other players in order to deliver the winning value proposition to the primary entities in a chain. The concept of delivering both a primary value proposition to primary entities and supporting propositions aimed at securing the support of other entities in the chain is explained. An example from the world of chickens demonstrates the brilliant coordinated design of both the primary VDS and the supporting VDS to intermediaries, while the floor cleaning business provides an example of creatively changing the interrelationships in a value delivery chain.

Chapter Twelve – Don’t Sell to Business-Customers: Improve Their VDSs Instead 176

This chapter discusses how to approach complex business-customers without making the common error reinforced by conventional marketing theory – overly focusing on the buying function rather than truly understanding the customer’s business. Results can be dramatically more promising than those derived from a sole focus on the customer’s buying function. Conner Peripherals and the early Compaq, Fidelity in pension fund management and others illustrate this potential.

Chapter Thirteen – Define the Firm’s VDSs: Key Task of Corporate Strategy 180

The concept of understanding a business as a value delivery system in context of a value delivery chain is expanded to include corporate strategy. The reader learns how to understand corporate strategy in a wholly new light – as the definition of the firm’s value delivery systems. General Motors’s long history is used as a classic example of an organization with initially a clear-headed strategy that gradually lost sight of its businesses. DPV urges senior managers to define and redefine their enterprises’ VDS’s, despite the perspective of conventional strategy theory, which can lead them to believe this exercise too pedestrian.
Chapter Fourteen - Define VDSs Within the Context of their Market-Space

This chapter completes the picture of business strategy in the DPV perspective. A market-space is a group of related potential VDSs and their potential for wealth, while each related potential VDS is a value delivery option in that market-space. Corporate strategy must design, define, and choose the firm’s businesses – VDSs – in each market-space where it chooses to compete. Those undertaking this task must remain cognizant of the interrelationship with other existing or potential VDSs in the same market-space. Managers who have understood Part One now understand what a fully developed strategy must be in order to profitably deliver superior value. Armed with this understanding, they are ready for the systematic methodology by which to formulate and implement such strategy.

Part Two - How to Deliver Profitable Value

Chapter Fifteen - Formulate Strategy by Identifying and Choosing Value Delivery Options

This chapter holds an in-depth, practical explanation of the methodology for strategy formulation that starts with identifying value delivery options in a market-space. DPV advocates replacing traditional market and industry ‘segmentation’ with this methodology. The chapter discusses how and why conventional segmentation is so different, so unnecessarily complex, and so much less strategically useful than this DPV methodology. In an HP example introduced previously, the organization uses the value delivery options approach to greatly simplify its understanding of the relevant market-space. Chevron, in a supposed commodity business – natural gas – identifies the value delivery options in its market-space, and dramatically improves profitability. Using the DPV methodology, managers evaluate the value delivery options identified, then choose the optimal combination of them for the market-space being explored. Determining the firm’s strategy comprises choosing the market-spaces in which to compete and the primary VDSs to operate in each market-space, and identifying the capabilities that the firm must support across these businesses. The relentlessly practical character of the methodology is demonstrated by the HP Vectra computer. Discovery of the option that Vectra was unconsciously executing yields a realistic opportunity. A flowchart visually depicts the DPV methodology. A key element of this approach to strategy is the method of becoming the customer, which is discussed in detail in the next three chapters.