



Developing superior value propositions: a strategic marketing imperative

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superior value
propositions

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Received 22 December 2012

Revised 5 April 2013

Accepted 19 February 2014

Abstract

Purpose – Scholars identify the value proposition as representing the essence of strategy and the firm's single most important organizing principle. However, research suggests less than 10 per cent of companies formally develop value propositions. The purpose of this paper is to undertake case study research investigating the process by which leading companies develop their value propositions.

Design/methodology/approach – The research identifies that the financial services and telecommunications vertical markets are viewed as the highly sophisticated industry sectors in terms of customer management. These industry sectors are selected for investigation. The paper develops case studies of two companies' approaches to developing value propositions in the business-to-business (B2B) and business-to-consumer (B2C) sectors within these vertical markets.

Findings – This paper contributes to the marketing literature by examining how two large and complex service enterprises have adopted structured processes for developing innovative value proposition within the B2B and B2C sectors. The authors argue that innovation in value proposition development represents a substantive opportunity for marketing to reassert its influence in the boardroom.

Practical implications – This case study research provides guidelines of the processes by which enterprises can successfully develop innovative value propositions.

Originality/value – This research is considered to be the first case-based academic exploration of the formal processes by which large organizations develop value propositions.

Keywords Case study, Strategic marketing, Value proposition, Core strategy

Paper type Case study

Introduction

The value proposition concept is now recognized as having a key role in business strategy. Leading scholars such as Webster (2002) consider that the value proposition "should be the firm's single most important organizing principle" (p. 61). Kaplan and Norton (2001) states the value proposition is "the essence of strategy" and Hammonds (2001) argues that business strategy must start with a differentiated value proposition. Lehmann and Winer (2008) highlight how the value proposition represents a statement of the enterprise's core strategy.

Practitioners also argue the core strategy of the enterprise is "creating clarity of purpose", an idea central to the concept of a clearly focused value proposition (e.g. Public Strategies Group, 2012). Developing a superior value proposition is a clear strategic imperative for enterprises. Value propositions have an important role to play in helping marketing reestablish itself as the enterprise's core strategy.

The development of value propositions has been highlighted as a key research priority, for the period 2010-2012, by the Marketing Science Institute (2010). Additionally, Ostrom *et al.* (2010, p. 8) state that determining "how can a firm change its value proposition" in order to gain an "improvement in their competitive position" is one of the



most important areas where research needs to be undertaken. Thus, value proposition development is not only a critical strategic issue for senior marketing practitioners, but it is also a topic of importance for academic research.

The diminished role of marketing has been commented on previously by many authors (Brown, 2005; Kotler, 2009; Sheth and Sisodia, 2006; Verhoef and Leeflang, 2009) and is placed under renewed scrutiny in this Special Issue (e.g. Klaus *et al.*, 2014; Wirtz *et al.*, 2014). Marketers are currently more likely to be seen as having a role in execution rather than strategy (Brooksbank *et al.*, 2010; Wirtz *et al.*, 2014). Historically the head of marketing's role has been to lead the organization's marketing branding, advertising and communications activities; however, today the chief marketing officer (CMO) has to be a business strategist first and a marketer second (Sullivan, 2009).

Marketing can impact "every piece of an organization", positioning "marketing as a core strategy" (Serb, 2010). Verhoef and Leeflang's (2009) empirical research found that innovativeness and accountability are the two major drivers that impact the marketing department's influence within the enterprises. If we accept that the fundamental mission of a business is value creation (Reichheld, 2001), demonstrating innovation in value proposition development and taking accountability for its successful delivery to customers represents a substantive opportunity for marketing to reassert its influence in the boardroom.

The term value proposition has become one of the most widely used expressions in business in recent years (Anderson *et al.*, 2006). However, as Lanning (2003) points out, unfortunately the term value proposition is typically used in a very casual and trivial manner, rather than being rigorously developed from a strategic standpoint. In reality most enterprises do not have clearly articulated value propositions. Frow and Payne (2012) surveyed over 200 companies and found that while many companies use the term in their everyday discussions, less than 10 per cent of companies formally develop, communicate and use value propositions. Whilst, all firms have some form of a value proposition, be it implicit or explicit, we argue that the lack of specifically focused formal activity involving the development of a superior value proposition is likely to impede many enterprises' marketplace success.

Given the value proposition is argued to be the enterprise's single most important organizing principle (Webster, 2002) and that so few enterprises formally develop, communicate and use value propositions, the exploration of how leading exemplar firms formally develop their value propositions represents an important area of management practice requiring research attention.

A review of the literature confirms that there is little documented evidence on alternative approaches taken by companies in developing value propositions. Thus, the purpose of this paper is to report on case study research that investigates the process by which two leading exemplar companies develop their value propositions. This paper is organized as follows. First, we briefly review relevant literature on the value proposition concept. Second, we develop criteria for case study selection and explain the choice of the case studies. Third, we provide two case studies that illustrate alternative approaches to developing value propositions within the business-to-business (B2B) and business-to-consumer (B2C) sectors. Each case study illustrates a different approach to developing value propositions. Finally, we discuss our conclusions regarding the role of value propositions in helping reassert marketing's influence in the boardroom, limitations of the study and future research.

The value proposition concept

We view the value proposition as an important part of the overall value creation process in customer management. The value creation process involves transforming the outputs of the strategy into programmes that both extract and deliver value. Payne and Frow (2005) identify three elements of the value creation process: determining what value the company provides to its customers; determining what value the company receives from its customers; and, by successfully engaging in this co-creation (e.g. Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004; Payne *et al.*, 2008), maximizing the lifetime value of desirable customer segments. The value the customer receives from the organization draws on the concept of the benefits that enhance the customer offering, which can be integrated in the form of a value proposition (e.g. Lanning and Michaels, 1988).

The origins of the value proposition can be traced to the work of Bower and Garda (1985); however, these authors only briefly discuss the concept. It was not until several years later that a more complete description of the value proposition concept was published in an internal McKinsey Staff Paper (Lannings and Michaels, 1988). This work described the value proposition as a promise of value to customers, combining benefit and price. These authors argue that competitive advantage is achieved by effectively delivering a superior value proposition to a chosen group of customers. A successful value proposition provides the basis for differentiation and the foundation for an ongoing buyer-seller relationship. The importance of the concept lies in forcing an organization to clearly articulate the basis on which it will compete in its chosen markets, which requires careful understanding of valued benefits, from the customer perspective. Value propositions are acknowledged to form an important part of an enterprise's business model (Morris *et al.*, 2005; Lindgardt *et al.*, 2009; Voepel *et al.*, 2004).

Little discussion of the value proposition concept appeared until, in the mid-1990s, a highly publicized work by Treacy and Wiersema (1995) focused greater attention on the concept. Since that time, interest in value propositions has increased. These authors define a value proposition as a promise a company makes to customers to deliver a particular combination of values – such as price, quality, performance, selection and convenience.

Anderson *et al.* (2006) point out “there is no single widely approved definition for a customer value proposition”. They suggest that organizations typically adopt one of three approaches to developing value propositions: all benefits – identifying benefits a company can deliver to customers; favourable points of difference – identifying benefits relative to those delivered by key competitors; and, resonating focus – key benefits truly valued by chosen customers that are delivered or potentially could be delivered. Lannings and Michaels' (1988) original description of the value proposition considers how a firm's offering adds value from the perspective of a customer. Authors such as Kaplan and Norton (2001) describe the concept from the perspective of an organization. Other researchers (e.g. Smith and Wheeler, 2002) emphasize the importance of customer experiences in value propositions.

For this research we adopt Rintamaki *et al.*'s (2007) definition of a value proposition as “an encapsulation of a strategic management decision on what the company believes its customers value the most and what it is able to deliver that gives it competitive advantage”. A value proposition consists of physical/technical enablers that create the conditions for the service experience (Sandström *et al.*, 2008). Value propositions encompass the functional and emotional benefits of an enterprise's brand. The value

proposition is distinctive but closely related to the concept of a brand. A brand has two tasks: creating a relevant and compelling value proposition; and making this proposition credible (Aaker and Joachimsthaler, 2000). The brand connects directly to the customer through a targeted value proposition. From a service-dominant (S-D) logic perspective, branding represents a communicative interaction process in which firms support the intended meanings of their value propositions (Ballantyne and Aitken, 2007). An organization's value proposition provides a mechanism for achieving brand consistency and continuity by reinterpreting brand and customer value across the entire organization (Knox and Maklan, 1998).

The importance of the value proposition has been re-emphasized in the recent work on S-D logic by Vargo and Lusch (2004). They develop a number of foundational premises that underscore the critical role value propositions play as an offer of value to the customer and in the customer's role as a co-creator of value. However, despite value propositions forming a central foundational premise of this logic, there has been very little specific discussion of them within the fairly substantial literature that has developed in the area of S-D logic. Other recent work relating to value propositions and S-D logic focuses on bi-lateral perspectives (Ballantyne *et al.*, 2011), other stakeholders (Frow and Payne, 2011) and dynamics of S-D logic (Kowalkowski, 2011; Kowalkowski *et al.*, 2012).

In sum, there is little scholarly literature dealing with the concept of the customer value proposition, despite widespread casual use of the term within businesses. Up until the late 1990s descriptions of the value proposition concept appeared mainly in internal staff papers of consulting firms and managerial publications, while this topic was largely neglected within the academic literature.

Case study selection

From our research we identified that there is little literature illustrating the important topic of how individual companies develop their customer value propositions. As a consequence, we undertook case study research to identify and provide examples of companies that have adopted formal methodologies for developing value propositions.

We restricted our case study research to two companies due to the difficulty we experienced in gaining both access and permission to report on companies' proprietary approaches to value proposition development. We used a purposive approach (Miles and Huberman, 1994) to select the two companies. Purposive sampling involves choosing companies that represent "information-rich cases that manifests the phenomenon of interest" and that are illuminative for the purpose of the study (Patton, 2002, p. 234). Marshall (1996) suggests that purposive sampling is the most commonly used technique where researchers actively select examples which focus on the research issue of interest.

Four criteria were used in determining appropriate case studies. First, the case studies should be drawn from businesses that were large and sophisticated in terms of customer management. Second, the companies selected should have a very large customer base, as such companies were considered likely to face greater challenges in delivering value consistently and hence building successful customer relationships. Third, one case should be drawn from both the B2B and the B2C sectors. Finally, following the recommendation of Flyvberg (2006), the choice of case should be an "information-oriented selection" and provide access to an appropriate amount of relevant information.

Interviews and research related to our earlier work confirmed that the financial services and the telecommunications vertical markets were viewed as highly sophisticated, in terms of customer management, with informal estimates suggesting

that around 50 per cent of global customer relationship management revenues were spent within them. Recent estimates (e.g. Da Rold, 2012) points out that these two sectors are now experiencing the strongest growth in terms of customer relationship management expenditure. These two industry sectors were selected for investigation.

Based on the above criteria, a shortlist of six companies from the financial services and telecommunications sectors was developed from various sources including a search of the literature, internet searches and discussions with senior executives. We investigated these alternatives and subsequently gained access and agreement to report on the value proposition development activities of two leading companies – British Telecom (BT) and Zurich Financial Services. These two companies meet all the above criteria: both these companies are highly sophisticated in terms of customer management; they represent examples from the B2B (BT) and B2C (Zurich Financial Services) sectors; both have very substantial customer bases; and, finally, we gained access to appropriate information on value proposition development in both firms, thus our choice is an information-oriented selection.

Data were collected from various sources including company records, desk research, interviews and field visits. Using this data, the authors identified and documented the value proposition development processes in both firms. Accuracy was verified by “member checks” (e.g. Wallendorf and Belk, 1989) with senior managers in both organizations.

Building value propositions at BT: a B2B case study

British Telecommunications plc (BT) is one of the world’s leading telecommunications providers and one of the largest private sector companies in Europe. In 2012, the company employed over 90,000 people and had an annual turnover of £20 billion. The BT “Retail” business unit focuses on both business and residential customers and has some 28 million customer lines. It has 5.7 million broadband customers, one million small and medium enterprise customers and nearly £8 billion annual revenue.

Over the last decade competition in the telecommunications market has accelerated. The “Major Business” division of BT faced a key challenge in providing tailored offers to large business customers that deliver real and sustained value and that promote the development of long-term relationships with its important business customers. Under conditions of increased competition, it became increasingly important for BT to develop a greater focus on delivering value to its customers. What was needed was a more formal approach to ensure that customers receiving tailored offers that delivered real and sustained value to them. BT took up this challenge by integrating traditional products and services with “new wave” technologies to provide carefully developed customer value propositions. A new project on value proposition development was initiated.

BT views a value proposition as the combination of products and services offered to a customer, based on an accurately identified set of customer needs. It recognizes that becoming totally customer focused depends on first defining customer needs and then allowing them to drive the development of winning value propositions, high-quality communications and e-business solutions that fulfil the proposition and deliver the value promise. BT’s process for developing value propositions in its major business division is summarized in Figure 1. We now discuss the major elements shown in this figure.

The value system

BT’s value propositions project works at unifying its value system (see Figure 1), which comprises of three core stakeholder groups: the customer (sell-side); the

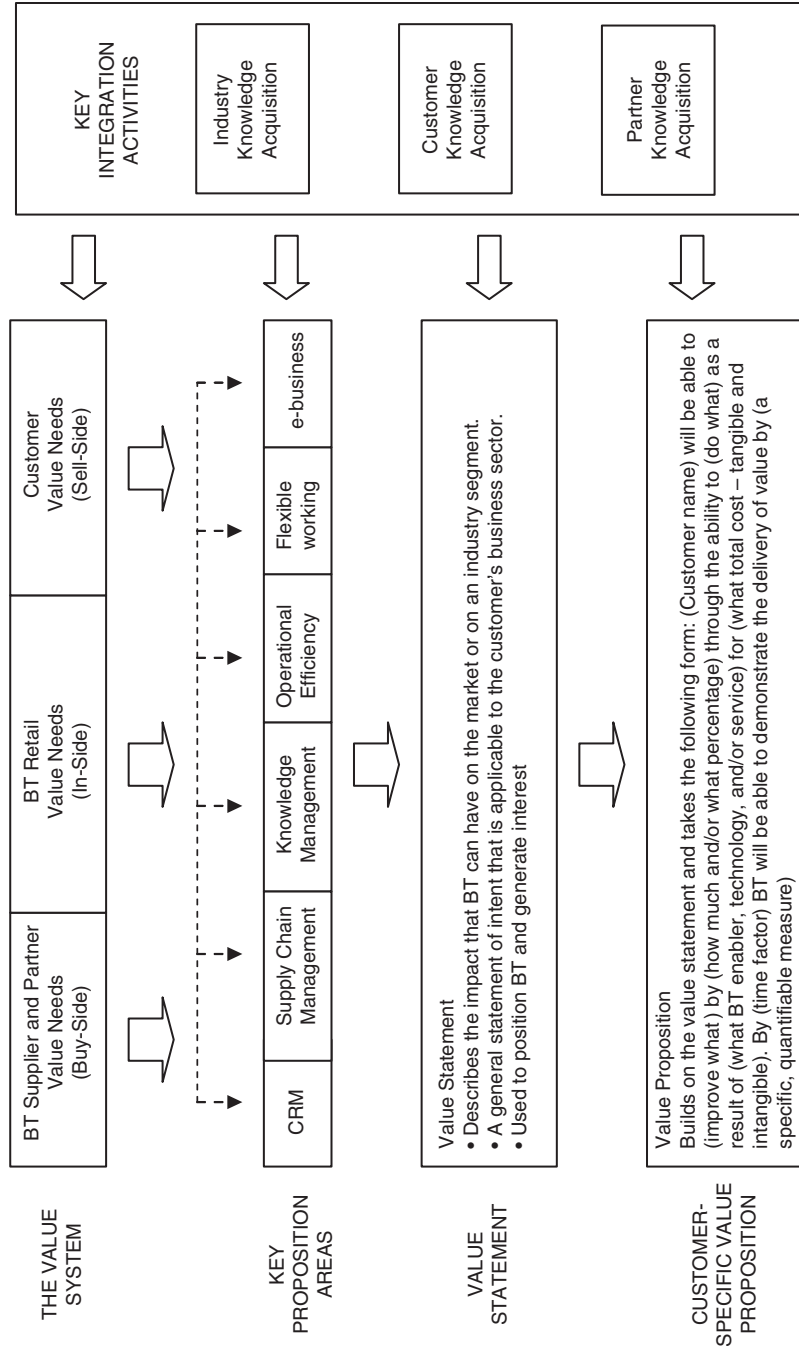


Figure 1.
BT value proposition development process

enterprise itself (in-side); and suppliers and partners (buy-side). BT views the following activities as key to providing this integration and delivering a superior value proposition: having an excellent understanding of the customer's industry; having an excellent understanding of BT's own industry; building excellent relationships with clients; and, being excellent at what BT does with its industry and global partners.

Key proposition areas

The value system reflects the six key proposition areas shown in Figure 1. Value propositions are offered in the following key areas: customer relationship management; supply chain management; knowledge management; organizational effectiveness; flexible working; and, e-business. The dotted lines in Figure 1 signify that these proposition areas are drawn on selectively, according to the context of a major customer's specific issues, with value propositions being designed around these specific customer's issues.

Value statement and company-specific value proposition

The value proposition development process then involves two stages: developing a general industry value statement; and a customer-specific value proposition. The acquisition of industry knowledge, customer knowledge and partner knowledge represent key inputs into this process.

The value statement describes the impact that BT can have on the market or on an industry segment. It is a general statement of intent that is specifically applicable to the customer's business sector. This value statement is used to position BT and generate client interest.

The value proposition is a customer-specific proposal, typically using a value statement as a starting point, that is quantifiable in both value returned to the customer and revenue to BT. It is a clear statement of the value BT brings to a particular client and answers the questions: how much value (financial benefit to the customer); how soon can the value be realized (timing); how sure is the value (risk); and, how will the value be measured (value return).

The BT value proposition process – summary

Through this emphasis on proposition development, BT focused on improving the quality of its service delivery and enhancing customer satisfaction while, at the same time, reducing costs by cementing efficiencies and driving greater productivity. This commitment to customer value marked a change in BT's business approach, from one that is product and technology-led to one that focuses on understanding customer needs and building value-based revenue streams.

BT recognized that the strongest value propositions have a financial linkage from the start of an initiative right through to a measurable improvement in the customer's business. As part of this initiative, BT made a considerable effort to ensure that customers understand the financial impact of their problem and have a clear statement of BT's value to them. For example, economic value equations were communicated to major business customers, indicating sources of value relevant to them. These economic value equations give examples of the value that they can add to major business's customers including: quality levels; customer satisfaction levels; productivity of assets, people and capital; employee satisfaction; turnover; headcount reduction; financial measures and ROI; new revenue streams; expense reduction; market share; reducing risk; timeliness of getting product to market; and variety and quality of products. These value

formulas are based on sources of value relevant to a specific individual customer, as defined by detailed analyses and customer profiling that need to be undertaken.

The result of BT's value proposition approach has been to refocus product development, marketing and sales on individual major customers and their needs. Product development is now driven by this understanding of customer needs, moving BT towards a market-led rather than product-driven approach. The learning from the project led to the development of value a proposition approach that can be applied across the BT group.

Building value propositions at Zurich financial services: a B2C case study

Zurich Financial Services Group (Zurich) is a leading provider of financial protection and wealth accumulation products and solutions. Zurich has over 60,000 employees serving some 35 million customers in more than 170 countries. The company has three main business segments: general insurance; global life and "Farmers" which manage the personal lines and small business insurance sold in the USA. Zurich reaches the majority of its retail customers through three main distribution channels: Zurich agents, independent financial advisers/brokers and banks. Managing customer relationships effectively across a diverse customer base and comprehensive product and service portfolio is a demanding and ongoing challenge for Zurich. In order to retain its high-market responsiveness, Zurich devised a methodology that focused on the design and delivery of superior customer value propositions.

The inputs to proposition development constitute a description of the business opportunity and a detailed outline of the needs of the selected customer segments concerned. The outputs comprise all the components required to deliver the new value proposition, such as product literature, IT systems, business processes, licensing, training and sales support tools. The value proposition framework, shown in Figure 2, consists of a series of five processes.

These processes include: developing the core proposition of the business opportunity and business case; cross-functional development of the proposition; market testing of the value proposition deliverables; launch of the solution; and, reviewing the proposition, its performance and knowledge gained from the implementation. Of special importance is the process of core proposition development. This process involves the detailed specification of the proposition so that an identified business opportunity could be developed into an articulated specification covering: product; service; distribution; communication; and, pricing.

Core proposition development function

The initial process is concerned with the detailed specification of the proposition to be developed. It involves cross-functional collaboration with staff involved in some or all of the following sub-processes: first, define proposition – turning the outlined business opportunity into an articulated specification, covering product, service, distribution, communication and pricing; second, business case evaluation – determining the business rationale for the defined proposition, incorporating a financial evaluation; and, third, research-led testing – using various test methods, such as focus groups and customer surveys, to examine one or more aspects of a prospective value proposition.

Develop proposition

The next process encompasses the cross-functional activities involved in actually creating the deliverables of the planned value proposition. It will vary in scope and content,

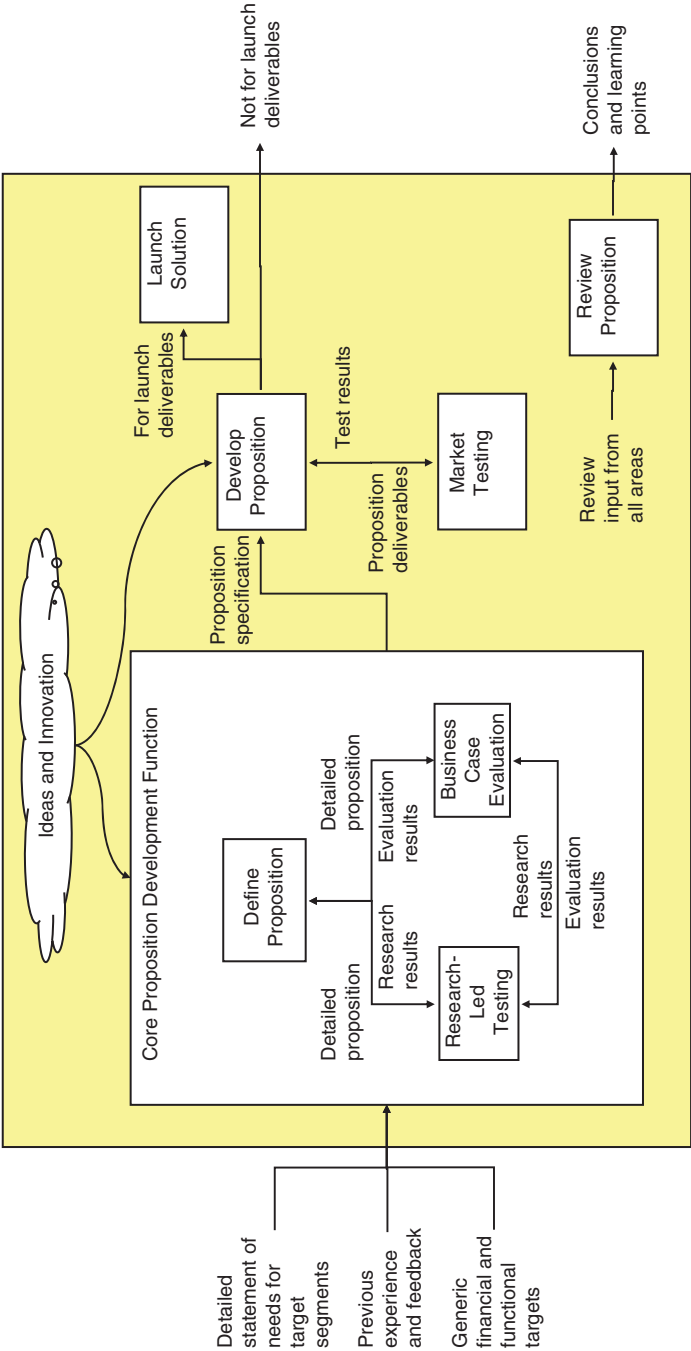


Figure 2. Zurich financial services value proposition framework

depending on the proposition, but may include developing or amending business processes, IT systems, training material, marketing material and product literature.

Market testing

This process involves offering the developed value proposition to a representative selection of target customers in a controlled way, in order to test specific aspects of it. The process is applied, where necessary, and is generally more relevant in the context of a service-based proposition than of a product-based proposition.

Launch solution

This process involves making the value proposition available to customers on a full-scale basis. It covers a range of activities that include: training and licensing distributors; producing literature; implementing IT systems; and equipping and managing administrators.

Review proposition

This review process is carried out, for each proposition, at an agreed period of time after launch. All aspects of proposition development are examined and performance is compared to forecasts. Resultant learning acquired from the insights and the analyses that are generated is then fed back into management and decision-making processes to inform future activity in the areas of client acquisition, customer segmentation and proposition development.

The Zurich financial services value proposition process – summary

Zurich first started testing value propositions developed on this basis in the early 2000s. As such, it was an innovator in value proposition development. As Arvind Malhotra, Zurich's former UK Marketing Director, explains: "For each target segment we seek to define a single value proposition which encompasses our offering to them over the lifetime of our relationship with them. We then deliver this proposition through the solutions we build to meet their needs".

As an example, within the "small business" segment, the company identified the customer need to manage their personal finances and business pressures concurrently as a key area of development. By centralizing expertise, Zurich was able to offer an integrated solution that jointly addressed both concerns in a simple, straightforward manner. Similarly, for the "family" segment, recognizing that moving home is a key event in the customer's life stage and a very stressful one, Zurich started to develop a readily available solution that offers customized flexibility.

The key feature of this methodology is its emphasis on customer focus. Zurich proactively asks its customers what they want. Customer feedback is intended to inform all decision making. The catalyst for Zurich's refocus was learning that customers do not just want a full range of products, but rather require solutions that are most pertinent to their lives and needs. Zurich's focus on building value propositions in a more formalized and strategic manner represents an effective means of tackling their competitive challenges.

Conclusions, limitations and future research

This paper contributes to the value proposition literature by developing case studies illustrating how two large and complex enterprises have adopted structured processes for value proposition development in the B2B and B2C sectors. This research appears

to be the first case-based academic exploration of the formal processes by which large organizations develop value propositions.

BT looks to new and innovative ways of making sure its business customers choose their products over those of competitors. Traditional business models of “buy and sell” have been replaced by value-based negotiations. The development and use of carefully constructed value propositions tailored to key business customers permits BT to consider how to deliver superior value to their customers.

Zurich’s approach to developing value propositions in the B2C sector also illustrates considerable sophistication. The framework recognizes the imperative of specificity – the need to target the specific requirements of specific customer segments. Zurich’s framework also emphasizes the iterative nature of value – value can be tailored, augmented and improved.

A carefully developed value proposition has an important role to play as it represents an offering of value aimed at engaging and building long-term customer relationships. The two case studies in this research represent different approaches based on the specific circumstances within each of the businesses. Both approaches include mechanisms for constant learning about the customer and the ability to apply this knowledge, and refining and tailoring the value propositions to their changing needs. At the heart of each approach are accurate financial measurement and feedback mechanisms that communicate the value offered to the customers.

The development of superior value propositions by enterprises represents a key strategic marketing imperative. However, to date, only a small percentage of firms appear to have developed clearly articulated value propositions. In line with the theme of this Special Issue, we argue that marketing should take a pivotal role in developing a superior value proposition. Taking such a role will assist in placing marketing back where it belongs – as the organization’s core strategy.

Organizations need to be more aware of the role of the value proposition as a firm’s most important organizing principle (Webster, 2002) and the potential impact a superior value proposition can have on organizational performance. The link between superior value propositions and organizational performance is now firmly acknowledged in the literature. Parnell (2006) and Lusch *et al.*, (2010) consider that firms that develop the most compelling value propositions will have the best organizational performance. A number of other scholars (e.g. Huang and Hu, 2004; Kaplan and Norton, 2001; Sim and Koh, 2001) point out that effective value propositions lead to competitive advantage and improved financial performance.

The marketing function need to become more fully engaged in leading the creation of the firm’s value proposition in order to assert, or reassert, marketing as an involved creator of the organization’s core strategy and its strategic plans. CMOs should assume responsibility for the activity of value proposition development, in conjunction with relevant C-suite peers, because the marketing function is best placed to ensure the value proposition is not only relevant to the enterprise’s customers but that it is effectively communicated to all key stakeholders.

Limitations and future research

Given the lack of scholarly literature on how organizations actually develop their value propositions, we have adopted a discovery-oriented approach (e.g. Bendapudi and Leone, 2002) to exploring two exemplar organizations’ approaches to formally develop value propositions. From our research we identify several further opportunities to explore value propositions, in part revealed by some limitations of the current study.

First, detailed surveys are needed to explore the adoption and use of value propositions within organizations. Such research should identify the incidence of formal adoption of value propositions by sector and consider enterprises' experience in developing and implementing them.

Second, further case study research needs to be undertaken to explore alternative approaches to proposition development. This work should focus on identification of industry best practice.

Third, whilst scholars acknowledge the relationship between superior value propositions and organizational performance, this topic has not yet been subject to empirical research. Such research should investigate what constitutes a superior value proposition, including not only major strategic forms of differentiation, but also how smaller and more personal humanistic and emotional experiences contribute to a value proposition (Bolton *et al.*, 2014). Empirical research that establishes the link between superior value propositions and organizational performance will help further emphasize the important role value propositions have to play.

Fourth, the literature does not sufficiently emphasize the importance of developing value propositions at the customer segment level. The case study on ZFS highlights an approach to tailoring value propositions at consumer segments and the BT case study illustrates development of value propositions for individual business customers. More research needs to be undertaken to explore the use and application of the concept at the segment and individual customer levels.

Finally, this paper focuses on the customer value proposition. Recent work has explored a value propositions for a wider range of stakeholders (Frow and Payne, 2011). There are opportunities to explore bi-lateral value propositions (Ballantyne *et al.*, 2011) in the context of stakeholder linkages. In particular, relationships between service profit chain stakeholders – employees, customers and shareholders – and their value propositions are worthy of attention.

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