An introduction to the market-focused philosophy, framework and methodology called

Delivering Profitable Value

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Hewlett-Packard's Colorado Telecomm Division (CTD) was in trouble in the early nineties. CTD's "Protocol Analyzers" (PA's) helped computer managers analyze network malfunctions. Originally, CTD's new PA's produced much more network data than competitors, allowing network managers to make quicker diagnoses. CTD had gone six years without a new product. Competitors had attacked niches, steadily eroding CTD's leading market share. CTD had slipped from the highest profit and growth division in its HP group to the lowest profit, fastest shrinking.

CTD's new-product efforts had been frustrating. Projects leveraged CTD's strength (in their eyes): producing more network data for analysis. However, as the diversity of networks increased, niche competitors designed PA's that also produced large amounts of data but with features customizing that data to the customer's specific network, applications or maintenance organization. CTD would discover, months into a project, that they had missed an important feature. The project would backtrack and reach the market too late, or simply grind to a halt. Managers thought R&D objectives needed to better reflect customer understanding, so CTD tried elaborate planning exercises to identify customer-desired features.

They divided the market by network, application, etc. and tried to identify what features, along with large amounts of data, these various customers wanted from their PA. Surely this would work - it would be customer-driven! Instead, it only led to long statements committing all things to all people, failing to better clarify R&D objectives.

Then CTD tried a new approach to their strategic dilemma. They started with exploring a "day-in-the-life" of a series of customers to see problems through their eyes. This focused not just on network managers, the traditional "customer," but on network-maintenance staff (the real users inside the customer-entity, from CTD's perspective) and even on the immediate customers of network management - the employees using the network. This time, CTD did not ask what PA features customers wanted but instead spent hours at customer sites "becoming" users, managers and their customers. Becoming the customer is different from *listening* to customers. It meant studying what customers tried to do and how, including the users' diagnosis and repair of network malfunctions, with what frustrations, compromises and inefficiencies. CTD sent inter-functional teams out to interview and analyze network managers, the users in maintenance, and their customers, doing their jobs in various installations. From these explorations, CTD discovered the scenarios which customers in different situations would most value.

In this way, CTD discovered many users in network maintenance increasingly overwhelmed by network complexity and pressure from their customers, the network users, to maximize availability (uptime) of the network. Although the manager/buyers would still request PA's with various features, CTD discovered that the scenario of experiences these customer entities truly needed was *not* PA's with ever more data to analyze. Rather, they needed maintenance staffs to quickly isolate a problem and then implement a fast practical solution. This produced an integrating and simplifying insight on which the entire CTD organization was rigorously focused. Rather than "making and selling Protocol Analyzers," CTD redefined its business as "delivering, to network-maintenance organizations running complex, critical network systems, the maximum possible network availability (uptime), via superior problem isolation, at similar price, versus competitors." This relatively simple conclusion became CTD's "Value Proposition" - a decision and commitment to deliver a specific combination of resulting experiences, including a price, to a group of target customers, profitably and better than competition.

CTD used this value proposition to drive all the required actions (in technology development, product design, procurement, manufacturing, packaging, distribution, selling, advertising, service and support, pricing, etc.) to profitably deliver (*provide* and *communicate*) this value proposition. This insight dramatically but painfully changed CTD's strategy and culture. Many were profoundly uncomfortable at first since this shift moved away from CTD's (and their personal) strength. Yet the Division found that it could develop the appropriate technology to deliver this resulting experience much better than competitors. CTD introduced the "Network Advisor," a product which de-emphasized data to be analyzed by users and instead isolated and identified network problems, showing the user the problem, a good solution and how to implement it quickly. This new product redefined the business, caught competition off-guard and produced a dramatic turnaround in CTD's business.

CTD's approach to their strategic dilemma exemplifies a fundamentally different and ultimately revolutionary paradigm called Delivering Profitable Value™ (*DPV™*). *DPV* is a comprehensive, pragmatic approach for transforming a business organization's ability to thrive in discontinuous, highly competitive environments.

This document offers a brief overview of the *DPV* framework and methodology, but it will be useful to first consider the kinds of behavior that contributed to CTD's difficulties. The two kinds of behavior are called "Internally-Driven" and "Customer-Compelled."

Prior to adopting the approach of *Delivering Profitable Value*, CTD, like most businesses, had been "Internally-Driven," eager for any rationale to stay with the apparent safety of their past strengths. Internally-Driven managers focus on designing, making and selling a product (or service) rather than on *choosing*, *providing* and *communicating* a superior value proposition. Competitive advantage is sought in the way products or services are made and sold, in assets, technologies, costs or functional skills that competition lacks. These managers often think from the inside out, deciding what product to make, then how to make it and then how to make customers buy it. All this is based on what they are good at, what they like to do, what's in their safety/comfort zone - not based on what it would take to deliver profitable value in the marketplace. Functions (R&D, operations, marketing, regulatory, etc.), not integrated around any specific *chosen* value proposition, pursue their own inconsistent agendas (sometimes feuding and blaming each other), undermining the chances of delivering profitable value.

In an attempt to transcend this Internally-Driven myopia, many, like CTD, pursue what they often see as the only alternative: commit to anything and everything customers suggest, the Customer-Compelled path. Just "be close" and "listen to" the customer, promise "total satisfaction" and "do what they say." Marketing and total quality are often interpreted in these terms. Despite listening enthusiastically, the Customer-Compelled organization still fails to understand resulting experiences customers would really most value. It asks the same wrong questions that the Internally-Driven organization asks (how to make and sell what product?) but now it wants *customers* to answer.

Moreover, managers with this mindset try to use customer input alone to solve the whole business puzzle, giving inadequate attention to the relative abilities of the organization and to necessary trade-offs. While customers often make many good suggestions, they also suggest much that is neither actionable nor profitable. And the diversity of requests is limited only by the diversity of customers one encounters. Most organizations, trying to follow the Customer-Compelled path, find it impractical and are driven back toward the traditions of the Internally-Driven organization, disillusioned and discouraged.

Many organizations find themselves engaged in a frustrating effort to blend the two flawed approaches. CTD attempted to so this for a while. The result of this effort? Managers either do whatever the customer says unless it violates an Internally-Driven mandate or follow Internally-Driven agendas until a customer complains. This approach lulls some managers into thinking they have found some kind of balance, but this approach misses the fundamentals of *DPV* just the same

In this world of increasingly frequent and severe change, business organizations have a choice. They can adopt an Internally-Driven approach, a Customer-Compelled approach, an approach that combines the two, or the very different approach that works: *DPV*. Businesses on this least traveled road integrate all aspects of strategy, culture, and leadership around one objective: delivery of superior value to target customers at a cost allowing acceptable returns. This deceptively simple principle begins with a concept equally deceptive in its simplicity: the customer's experience.

CUSTOMERS' RESULTING EXPERIENCES: ESSENCE OF A REAL VALUE PROPOSITION

Those who would make a business succeed face crucial decisions. Most important of these, yet most overlooked and poorly understood, is a disciplined choice of the *experiences* the business will cause some intended customers to have. These are the resulting experiences a business delivers, and they are the essence of a value proposition.

Properly understood, business is very much about the exploration and improvement of customers' real life experiences. The traditional concepts of "needs, requirements and benefits" share important common ground with resulting experiences. However, the differences are considerable, as the conventional concepts focus too much on what the business does or on superficial, vague ideas of benefits or needs. Managers must learn to deeply understand and decisively act on specific experiences customers would most value. Even as market share eroded, CTD thought it was focused on customer needs as it designed, often at buyers' request, PA's with more and more features. Only when the division focused on the *experiences* of their actual users, the network maintenance staff, who lacked the tools needed to quickly diagnose and solve network problems, did the turnaround begin.

As another example, consider the experiences that result from using a microwave oven. Users typically cook some food in a pot in a traditional oven, then put it in a bowl, in the refrigerator. They later might put this food on a plate, reheat it in the microwave, and in about five minutes eat it; and it probably tastes good. To clean up, they wash the pot, bowl, and plate. Without the microwave, they would take the food from the fridge, put it in another cooking utensil, and reheat it for about 25 minutes in a traditional oven. The food might dry out, sticking to the utensil. They put the food on a plate and eat it; it may taste dried-out.

As a result of using the microwave, the user eats about 20 minutes earlier, does not wash the additional utensil (which may be difficult), and enjoys a better taste (not dried-out). These microwave experiences have some *consequences* better than the traditional oven experiences. These come with a tradeoff - the user must shop, find space, and *pay the price* for this microwave. Microwaves succeeded because the value to customers of the resulting experiences, including drawbacks and price, was in net superior to alternative experiences.

Resulting experiences delivered to customers are the essence of a value proposition.

A VALUE PROPOSITION

To be actionable, the description of a value proposition must be specific and precise. So much so that this description must allow the organization to make meaningful trade-offs and set priorities throughout the functions and across all relevant resources and processes. A complete value proposition does not state a fuzzy aspiration; it completely and unambiguously commits the organization to its real delivery. It is therefore necessary to *complete* the choice of a value proposition by specifying the context in which the organization will deliver some set of resulting experiences. Thus, choosing a complete value proposition requires an organization to make five interrelated decisions:

A "COMPLETE" VALUE PROPOSITION
Explicitly decides, for this proposition:

I. Who are the intended customers?

II. What is this proposition's time horizon?

III. What do we want these intended customers to do?

IV. What competing alternative(s) do they have?

V. What resulting experiences will they derive, vs. alternative(s), if they do as we propose?

Remember:

- One important resulting experience is the *price*
- Many winning value propositions are trade-offs: some experiences are only equal or inferior

Unfortunately, the term value proposition has been co-opted by conventional marketing theory, used as another phrase to mean "positioning of our product." It is frequently tossed about casually and applied in trivial fashion, but in *DPV* it is used as intended, in a much more strategic, rigorous and actionable manner.

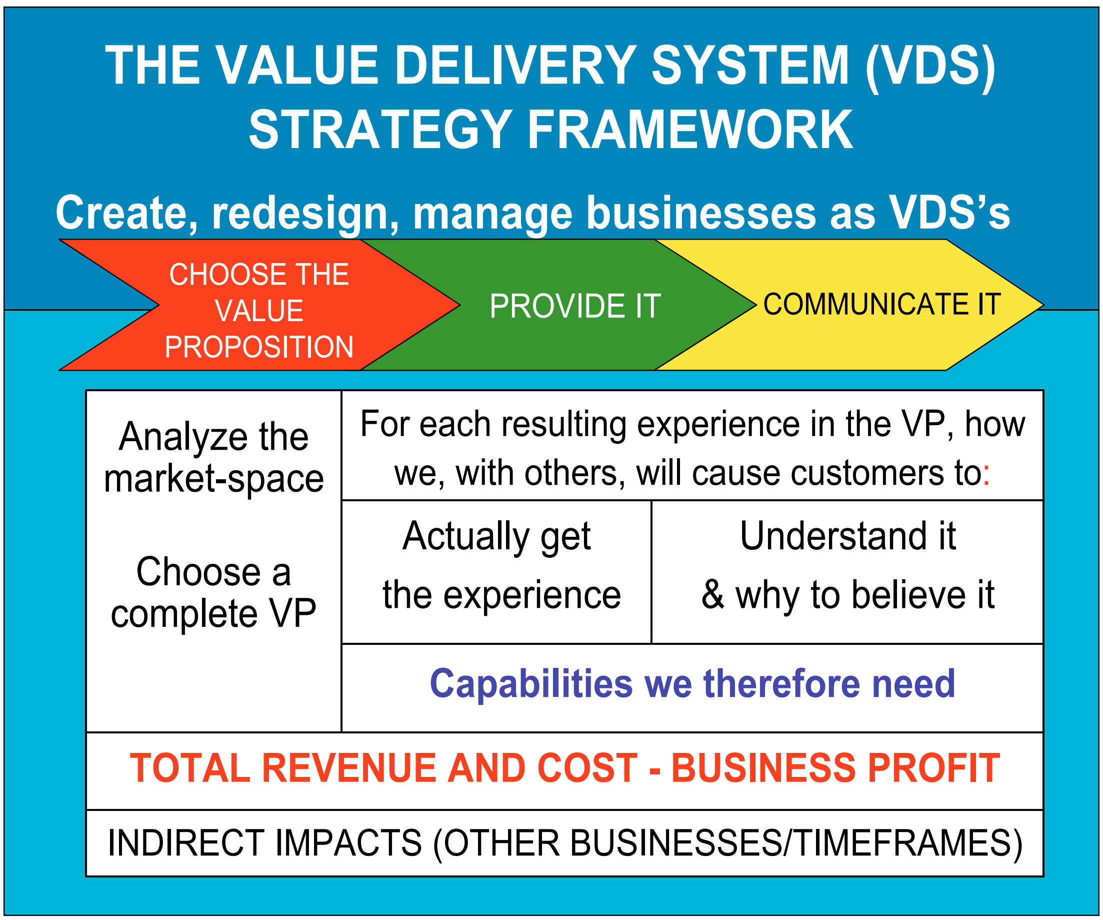
MANAGE A BUSINESS AS A "VALUE DELIVERY SYSTEM"

The author of this paper first created the value delivery system and its central element, the value proposition, in 1984. It is meant as a replacement for the central framework that still dominates strategic thinking. That framework, first developed by

McKinsey & Company as "The Business System," was widely popularized as "The Value Chain" by Michael Porter's 1985 book, *Competitive Advantage."*

This traditional value chain, or business system, framework sees a business as a *product-supply* system. It reinforces both Internally-Driven and Customer-Compelled thinking, as managers debate what perspective to use in answering the product-supply questions: "what product should we invent, how should we make it and how should we market it." The Internally-Driven schools of thought want to answer these questions based on the organization's resources and competencies. The Customer-Compelled schools want to ask the customer to answer these questions. But the faulty reasoning is in the questions themselves, not in who should answer them.

DPV changes the questions, to "what value proposition (that is, what combination of resulting experiences including price) should this organization deliver and how exactly should we align all products, resources and processes to profitably deliver it, that is, to provide and communicate each resulting experience?" The value delivery framework defines a business in different terms from the conventional paradigm; it defines a business in the terms of value delivery. From the *DPV* perspective, a market-focused business is a system integrated around delivery of a specific value proposition: a "Value Delivery System" that *choose*s, *provide*s and *communicate*s a specific value proposition.



***Choosing* the value proposition:** To genuinely choose a value proposition is to make the central decision of business strategy, for a value proposition defines the precise objective of a business. If your organization has *chosen* one, then:

- You have a clear specific statement of it (not just a feeling)
- It represents a disciplined decision to pursue one of numerous options (not a vague global set of promises to be good and nice)
- Every function and department (not merely marketing or planning) knows what it is, understands it and uses it to closely guide their everyday operational decision-making.

Most organizations do not in fact choose a meaningful value proposition. In these organizations, managers in different functions, when asked, would describe entirely different value propositions. Some may be at a loss to describe one at all. Often, choosing the value proposition is left for marketing and sales to do, once manufacturing and product development have finished with their important tasks. In this case, a value proposition is nothing more than an afterthought. In all of these instances, the value proposition has not been properly chosen.

It should be recognized that, short-term, it is politically less disruptive in most organizations to adopt a supposed value proposition so innocuous as to offend no one. Also politically easy is for a small group of managers to select a specific one but not fully convey it to others in the organization, much less enforce it as strategy. Such value propositions are politically not very troublesome but also unlikely to have a great impact.

Of course choosing as defined here is only advisable in order to make more money. An alternative is to trust to luck and hope for the best. A small lucky minority of organizations does profitably enjoy customer preference, at least for a while, despite never deciding deliberately to pursue any real value proposition. Most organizations do not see themselves as randomly throwing the dice and praying. Many usually employ some Internally-Driven and/or Customer-Compelled assumptions to decide what products/services to offer and how. This only obscures the fact, however, that they are still *not choosing* a specific value proposition.

***Providing* the value proposition:** Once chosen, the value proposition must actually *happen* in the life of the intended, target customer. That is, the business must actually *provide* the chosen resulting experiences to the chosen intended customer. A word of caution: issuing copies of the proposition to all departments ("Attention! Make this happen. Please.") won't work. Rather, an organization must explicitly decide *how* it is going to provide each experience.

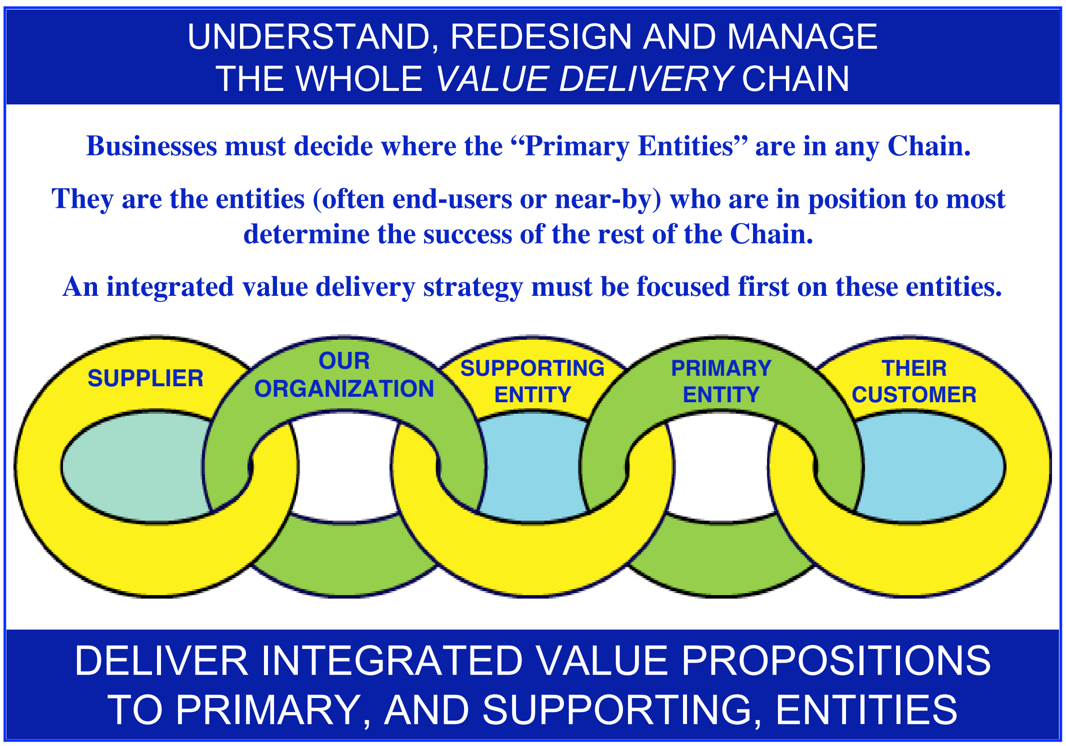
For example, a large Northern California hospital group articulated a proposition that focuses on obstetrics and includes among resulting experiences the notion that the consumer should receive "superior emotional well-being." This means in part that she and her family: "understand what's happening, what she and they can and should do to help the pregnancy; and, are included in medical decisions." This specific resulting experience is provided by actions such as:

- Education proactively integrated into the pregnancy from the outset (versus simply making a few courses available and passing out some literature)
- Highlighting and discussing actions the mother can take to help pregnancy so she really understands options and consequences (e.g., diet, exercise, work habits, stress, etc.)

- Education for mother includes understanding the range of likely responses by her family and how she can best manage these (e.g., to minimize the first child's jealousy)

Communicating **the value proposition**: In addition to providing each resulting experience in a chosen value proposition, a business must *communicate* these experiences as well. The business must ensure that target customers realize and fully appreciate the fact that doing what the business wants them to do will allow them to actually derive these resulting experiences. And the business must ensure that the customer appreciates the full value for them of those resulting experiences. Finally, the business must give the customer a reason to believe that they actually will derive those resulting experiences. No matter how well a business provides a value proposition, it must communicate it to actually win customer preference.

WHEN CUSTOMERS HAVE CUSTOMERS: UNDERSTANDING THE VALUE DELIVERY CHAIN



Of course, some businesses are more complex than others. Often, intermediaries lie between the business's organization and those customer-entities of most crucial importance to that business. The simplest example is a manufacturer selling to users through distributors, which are thus intermediaries. Those user-entities may also themselves be businesses with customers as well. Somewhere at the end of such a chain may be entities who are individuals, such as consumers. Thus, there exists a chain of interlocked entities, from the business' suppliers through its intermediaries, its immediate customers and so on, to the last relevant entity. Some entities in the chain may be "off-line" in the sense that they do not engage in buying or selling products relevant to the business but do influence players in the chain. Regulators or standard-setting bodies would be typical off-line entities.

Up to the final entity in the chain, the entities at all of these levels can be understood as value delivery systems. Thus, it is important to understand these chains not simply as logistical supply chains but as value delivery chains. Rather than seeing a chain as supplying product from one entity to the next, managers should understand these chains as delivering value, from one entity to the next. Often, an organization must deliver value to entities not adjacent to them on the chain and thus need other entities to cooperate. Every business organization needs to understand the current and potential structures of the value delivery chains in which they could compete for business.

Frequently, however, businesses in a value delivery chain take a nearsighted view of the chain. Failing to look deeply into the lives of entities further out on the chain, they only concentrate on the immediate-customer and supplier levels. Businesses that assume they are competing in a commodity market often succumb to this myopia.

But a product that is difficult to differentiate (usually the case in markets considered commodities) does not spell the end of differentiation. Earlier in the decade, Chevron’s US natural gas business unit (since merged with NGC Corp) proved this point by applying the principles of *DPV*. Chevron's immediate customers were pipelines, which may have fed a local distribution company, which may have in turn supplied residential, commercial, and industrial customers. Chevron's strategy effort focused on working directly with a large number of end-users of natural gas in an effort to understand their business.

Consider a paper company. Who are the paper company's customers? What value proposition does the paper company deliver to them? How do they use energy to deliver it? What could be improved about this paper company's value delivery system, especially involving the use of energy? By pursuing these questions, Chevron found a range of promising opportunities to help gas users, who reside several links down on the chain, make smarter use of energy. These opportunities called on Chevron to refashion its manner of doing business in some ways that required non-trivial cultural changes. But they point the way to potentially much more profitable business than would be possible by continuing to emphasize the commodity supply of gas to the first link in the chain.

Understanding the identity of the *primary* entities - those that will be most pivotally impacted by the organization and can most impact its success - is far more important than understanding the desires of the entities closest to the organization. The paper company and similar industrial plants were primary entities in Chevron’s chain. Intel and Microsoft understood that the corporate user of PC’s, and not IBM, was the primary entity in their value delivery chains. The organization must determine its own role in working with the other players in the chain to deliver the appropriate value proposition to the primary entity in the chain. The organization must also determine the appropriate value delivery actions for the entire chain to undertake.

Then, the organization must consider how to motivate the other entities – the intermediaries, its own suppliers, important off-line entities, and others in the chain. To motivate these other entities, the business may need to choose and deliver *supporting* value propositions to them. Any manufacturer who distributes through retailers, for example, needs to choose the right value proposition to the actual user of the product. For this proposition to be delivered, the manufacturer must play a role (e.g., designing, making, perhaps advertising the product) but so must the retailer (e.g., making the product easily available). To motivate that retailer, the manufacturer must show the retailer the resulting experiences they will receive for playing this role. The whole task of managing a business thus must encompass understanding, sometimes redesigning, and delivering value across an often complex value delivery chain.

STOP LISTENING! LEARN TO *BECOME* CUSTOMERS INSTEAD

But *how* should businesses discover and choose the resulting experiences central to the value propositions they should deliver, if they are to avoid being either Internally-Driven or Customer-Compelled?

A team of Honda employees is staked out in a parking lot of a grocery store. From a distance, they videotape scores of consumers performing the same task: loading groceries into the trunk (i.e., boot) of a car. Different cars, different consumers, different grocery bags. Back in Tokyo, Honda engineers and other managers, designing the next model, watch these videos. Some consumers are seen struggling to get the bags into the trunk. Some arrange their plastic bags to keep them from tipping over. At night, some peer into the trunk as they try to arrange bags in the back of the trunk. A few pause, rest a bag on the edge of the trunk wall, and then have to lift the lid again after it partly closes. For a few others, the cart slowly rolls a few feet away from the car as they load the trunk. For some, the whole process goes along without a hitch.

These motorists are not *telling* Honda their trunk needs or their desired benefits in a trunk. They are simply living part of their car experience. Watching these videos, the Honda engineers and other managers vicariously live that experience by putting themselves in the consumers' shoes. They can see and feel what is imperfect in the consumers' experiences. Then they can envision a far superior trunk-loading experience for these motorists.

BECOMING THE CUSTOMER BY EXPLORING CUSTOMERS' EXPERIENCES - OVERVIEW

CONTRAST TO INTERNALLY-DRIVEN & CUSTOMER-COMPELLED APPROACHES

INTERNALLY-DRIVEN	CUSTOMER-COMPELLED	*EXPLORING EXPERIENCES*
Present what we do and why it's great	Ask them what to do to make them happy	Deeply understand what they do and why
Uncover and answer customer's objections to our product	Ask what features and services, at what price, they require	Creatively infer what experiences *would* be most valuable to them
Write a proposition to help sell our product	Ask what proposition they wish to hear	Discover experiences that could form a superior proposition
Sales Force presents our pitch to buyers and influencers	Sales Force asks buyers/influencers to specify requirements	Joint teams study customer's multi-functional experiences

A tool we have found very useful for thinking about resulting experiences is to imagine making two contrasting video tapes of a day in the life of the customer. In practice, one does not literally have to make a video to understand a day in the life of the customer today. Asking the customer questions about what they do today is often equally effective, as long as one refrains from asking them what they want. The first (virtual) tape would capture a typical current scenario for the customer under study. What are they trying to accomplish, what obstacles do they encounter and how do they cope with those obstacles? The second (virtual) videotape would show what this scenario would be like if the customer's business or life were much improved. It tries to construct scenarios that are better for the customer and that the organization could conceivably help bring about.

Yet, uncovering and fully understanding the resulting experiences desirable to potential or current users is not nearly as simple as one would like. Directly asking customers what they want often does not reveal the resulting experiences they would most value but rather only elicits their description of the attributes, features and price they think should be offered by a product or service. It is far more powerful to "become the customer," that is, to study intensively how the customer lives, asking: "What would it be like to 'be' this customer and what would I want, as an end-result scenario, if I were that customer? What does this imply our business ideally should do to improve the lot of this customer? Could we do that profitably and better than competition?"

BECOMING THE CUSTOMER - EXPLORING EXPERIENCES

THE PROCESS

❖ Visit, interview, observe and analyze the primary entities (such as end-users) and other relevant entities in the value delivery chain

❖ Study factually what they *do* and (for business entities) what their strategy is (this is capturing "Virtual Video One")

❖ What's suboptimal? Do they fall short of their objectives in any way? Can we quantify the size of opportunity lost or of inefficiencies?

❖ Conceive an improved scenario for this entity ("Virtual Video Two"), at least some of which we *possibly* could profitably help make happen?

❖ What do/can competitors offer them (Virtual Competing Videos)?

❖ What are the key Resulting Experiences, in Video Two, and how do they compare to alternatives (Video One, and the Competing Videos)?

IDENTIFYING VALUE-DELIVERY OPTIONS: KEY FIRST STEP IN FORMULATING STRATEGY

Using the *DPV* perspective, the first step in formulating strategy is to identify and assess the value delivery options the organization may have. These value-delivery options are the possible, potential businesses – value delivery systems – that the organization could pursue. Ultimately, the design and choice of the VDS's the firm will implement constitute the essential task of corporate strategy, as understood in terms of the principles of *DPV*. The firm's value delivery systems should be understood in the context of other possible businesses, which may be related. A set of related possible businesses constitutes what we call a *market-space,* which includes customers, interacting with each other in value delivery chains, and the related value delivery systems possible among them.

An organization considering one or more market-spaces should identify the value delivery options in each. For a given market-space, what would the organization have to do in order to profitably win the business of the customers in it? There typically will be several different, though related, possible businesses in a market-space; strategy formulation should start with identifying and evaluating these options. In this way, *DPV* advocates replacing traditional market- and industry- segmentation with identifying value delivery options in a market-space, which is a far more useful and focused method for developing strategy than traditional segmentation is.

A group of customers *belongs* to a value-delivery option if the business would need to deliver one particular value proposition, in essentially the same way, to them. After identifying the value-delivery options (perhaps some obvious, some latent) in a market-space, an organization can decide in which options (if any) it can profitably execute the required VDS better than competition.

Many organizations are overly distracted by competitors, in the effort to "win." They frequently measure what competitors do and worry greatly if they don't match or exceed these competitors' actions. This game is easy to play without any reference to the experiences most desirable for customers. Competitive analysis in the *DPV* context first defines the resulting experiences some set of customers would most value. Then *DPV* asks, "Who among the possible competitors is able to deliver the most valuable combination of these resulting experiences to these customers?" A business wins by delivering a superior value proposition, not by being superior to competitors in some other respect.

The organization must then determine, for each value-delivery option, what key capabilities would be required by the VDS, what new capabilities the organization will have to build, at what cost and with what probability of success, in order to deliver a proposition superior to competing alternatives. This evaluation is not the same as asking, "What are our business's core competencies today?" In some cases, more dramatic profitable growth can be attained by building a new set of competencies, or capabilities. Sometimes, because of discontinuities in the marketplace, one has little realistic choice. Understanding current competencies may help one decide what market-spaces to evaluate in the first place; but learning how to build new competencies is unavoidable in a rapidly changing world, as IBM, Kodak, GM, and countless other companies have painfully discovered.

Based on this evaluation, the organization selects the businesses it will conduct, thus determining the organization's strategy in that market. This approach of identifying value-delivery options differs from the Internally-Driven methods of segmentation commonly employed. Segmentation is frequently treated as a marketing technique, useful mainly to find ways to better sell what an organization has already decided to make. Value-delivery option identification is conducted in order to discover what products and services *should* be made.

Conventional segmentation approaches also divide customers based on variables such as demographics, or product usage, that may or may not have anything to do with the actual requirements of profitable value delivery to those customers. The conventional approach to clustering customers by market segmentation is thus backwards. It divides customers by numerous variables without knowing how they vary by the one variable that matters strategically – what VDS is appropriate to them. The *DPV* approach first divides customers according to the VDS that would be most appropriate to winning their business, regardless of their demographics or other variables that may describe them. *DPV then* determines what demographic or other variables, if any, may describe the customers in each value-delivery option, as this information may be helpful to understand and reach the customers in each option.

REAL BUSINESS PLANS – COMMITING AND EXECUTING

Having evaluated an organization's value delivery options in a given market-space and having *chosen* the estimated most profitable combination of those options, it is time to formally commit to this choice. All decision making devices, including business plans, budgets, asset allocations, product, human resource and marketing plans, should be explicitly, rigorously determined by the VDS's to which they belong or must support.

This often also means restructuring. Though many people rightly want to avoid pointless restructurings, the simple fact is that a great many organizations are not structured as VDS's. Typical is to be organized by products as business units when in fact the right value propositions require bundles of products to be delivered in an integrated fashion. Even more primitive versions of the problem show up as functionally structured organizations where manufacturing, marketing and engineering act in no more integrated fashion than a set of loosely related business units. Restructuring to clarify accountability and to integrate functions around the appropriate value propositions is often unavoidably crucial.

A WINNING BUSINESS/VALUE DELIVERY SYSTEM (VDS)

CHECKLIST FOR A WINNING BUSINESS/VDS

1. **WOULD THIS VDS DELIVER A *SUPERIOR* VALUE PROPOSITION?** If delivered as designed, do we believe intended customers would conclude that the value proposition is superior to their competing alternatives?
2. **HOW MUCH REVENUE would we expect?**
3. **DO WE BELIEVE WE CAN BUILD THE CAPABILITIES NEEDED to implement this VDS?** This includes improving existing, and creating new, capabilities to provide and communicate the proposition.
4. **WHAT TOTAL COST would we incur?** This includes on-going operating costs plus those of building new capabilities, and the cost of capital.
5. **HOW MUCH PROFIT would this business/VDS generate, ignoring other businesses or later timeframes?**
6. **WHAT IMPACT ON OUR *OTHER* BUSINESSES, if any, would this VDS have?** To what extent would conflicts or synergies from this VDS reduce/increase profitability of our other businesses?
7. **WHAT IMPACT ON *LATER* TIMEFRAMES would this VDS have**? Does it facilitate a longer-term, more profitable VDS, or compromise later ones?
8. **WHAT DISCONTINUITIES may impact its success and sustainability?** What changes in the environment could change the outcome of this VDS?
9. **HOW DOES THIS VDS COMPARE TO OUR OTHER OPTIONS?**
10. **IN *NET:* IS THIS A GOOD VDS?** Do we believe it will, long term, generate more wealth for the firm than not implementing it?

Organizations must evaluate whether the designed value delivery system constitutes a winning business. The following checklist suggests questions by which to determine whether a value delivery system will generate wealth for a firm and thus whether it should be implemented.

CONCLUSION

DPV in its totality is relatively new, although it is based in part on numerous existing ideas. *DPV* can light a new path to long-term business success. Far less traveled than the Internally-Driven and Customer-Compelled paths, this path is for those committed to finding breakthrough profitable growth opportunities. But one must be willing to change; one must not merely mouth platitudes about value. *DPV* calls for fundamentally changing how organizations:

- Define their businesses;
- Adopt success-criteria;
- Structure their organizations;
- Identify, explore, assess and choose strategic options
- Study and understand customers;
- Analyze competition;
- Develop and manage all resources, processes, and functions.

To get started, senior leadership should assess the extent to which their organizations understand and embody the concepts of *DPV* , versus the extent to which they continue to rely on Internally-Driven and Customer-Compelled thinking. Leaders can begin by answering, with analytic insight and creativity, these powerful questions:

- Does the organization, including senior management and all functional managers, know what one or more value propositions the organization delivers today? Does it know the extent to which these propositions are sustainably superior and profitable?
- Has the organization deeply studied, not superficially surveyed, the businesses and lives of important entities throughout the relevant value delivery chain? Does management have quantitatively solid insights into how these various customers' current experiences could be greatly improved in ways the organization may be able to make happen?
- Has the organization *chosen* the one or more propositions which will make up its strategy in the near and longer term future?
- If so, is there more than lip service rendered to these propositions? That is, is there an articulated design of the value delivery system for each proposition – a detailed description of what each function, resource, and process must do to provide and communicate the proposition?
- Are the organization's efforts to invest in and build its future capabilities entirely focused on these designed value delivery systems?

To truly understand customers and thus formulate and execute business strategy that can accelerate profitable growth, managers must design each of their businesses around a disciplined choice of a winning value proposition. *DPV* offers managers guidance, in detailed practical terms, for making it happen.

For more information, contact:

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