

The Strategic Imperative of Creating and Capturing Value

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Prof. Paul Verdin
Chair in Strategy and Organization

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What do these firms have in common?

Group A

- Peugeot/Toyota
- Dell
- SAP
- Wal-Mart
- Ryan Air
- South West Airlines
- Nucor

Value Leaders

Group B

- Fiat/GM
- HP/Compaq
- Baan
- Sears Roebuck
- Go-BA
- Delta Airlines/American Airlines
- British Steel/Corus

Value Losers

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paul.verdin@ulb.ac.be

It's all about winning

« Only companies that win, matter ! »

Jack Welch, INSEAD, 20 May 2003

The questions

- What drives these value leaders?
- How do they do it?
- What do we know?

A large empirical study

- Across 50 industries for over 10 years
- US, UK, Germany, Benelux
- Economic measures of performance (EVA and MVA)

What are the factors of success?

“It’s **not** the Economy, stupid!”

“It’s **not** the Sector!”

“It’s **not** the Location or Home Country!”

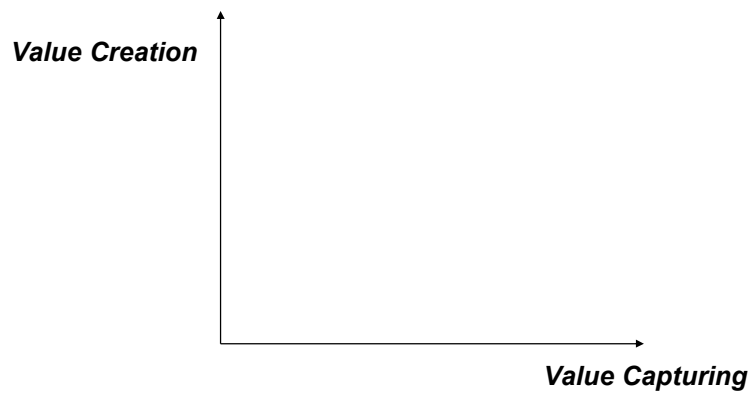
What we know it is NOT

External factors explain only about 5-10% of performance differences . . .

. . . and industry alone explains no more than 5%!

Real Winners master the Art of Strategy

What is that?



Creating Value

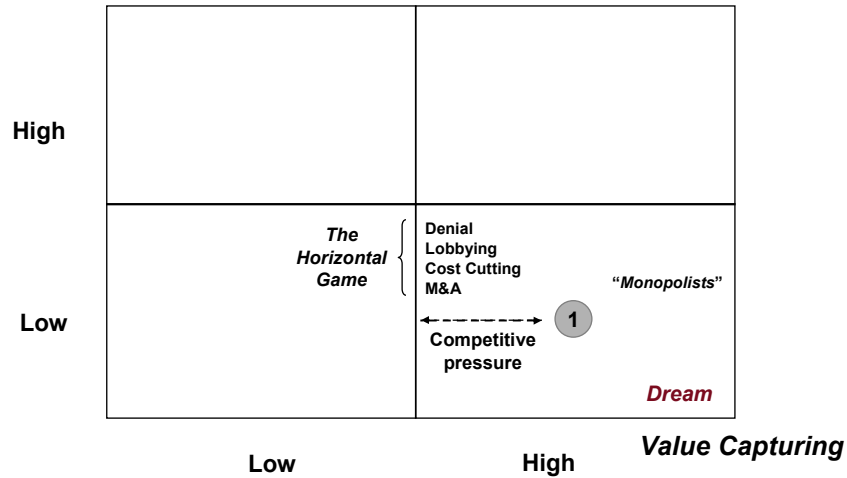
- For the customer, for the market.
- Who is our customer? Who could be our customer?
- What are her needs?
- What value do we offer?

Capturing Value

- Of the value created, how much can we keep to ourselves?
(for investors, stakeholders or re-investment)
- What is our value proposition?
- How does our business or revenue model work?

Creating and Capturing Value

Value Creation

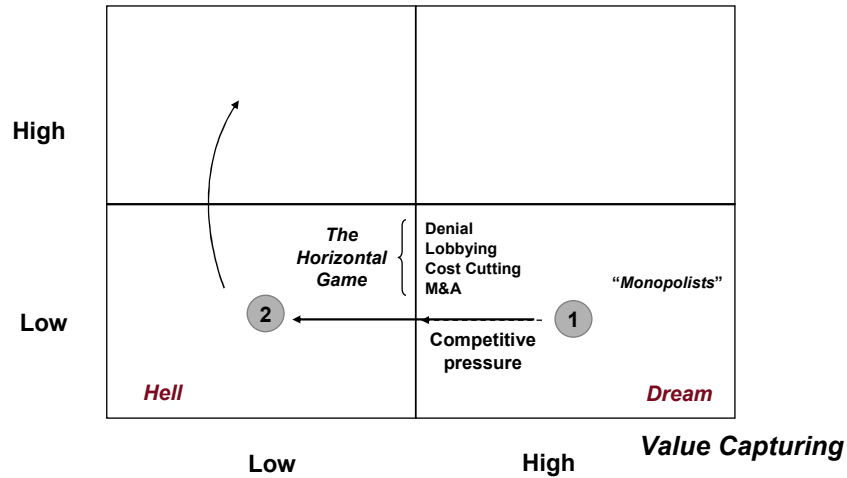


Persistent old logic – playing the ‘horizontal game’

- ‘Bigger is better’
- ‘Buy the competition, rather than beating them’
- ‘We have to take positions now’
- Focus on the ‘attractive’ businesses or segments
- Partnerships and alliances without clear value added
- ‘Lock in’ the customer
- ‘Loyalty’ programmes with no added value
- Who ‘owns’ the customer?
- The ‘pricing’ question

Creating and Capturing Value

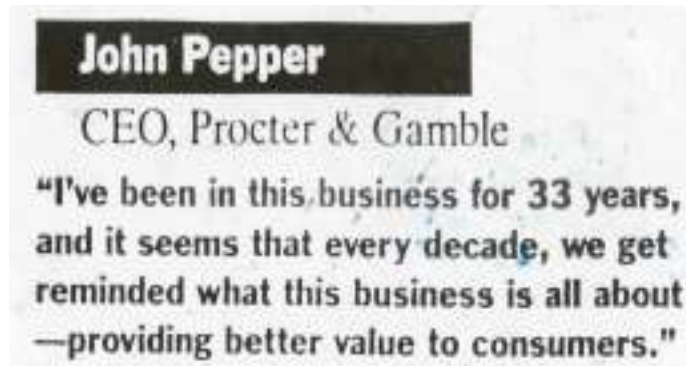
Value Creation



Market orientation is key for creating value

- Giving the customer what she wants!
- Adding features that are valued
- Delivering attributes tailored to customer needs
- Providing 'value added' services – really!
- Starting from the market, existing and potential!
- Refining, redefining and reinventing the perceived value

It is all about customer value creation ...



Fortune, nearly a decade ago ...

Value creation

"Value is not something we control.

It's in the mind of the customer.

You can't mandate or control
what people are going to ascribe real value to."

Nicholas Donofrio, Senior VP Technology and Manufacturing IBM
FT, 7 July 2004

Innovation and value creation

“Innovation is

what consumers are looking for”.

**Steven Reinemund, CEO Pepsi-Co
BW, 14 June 2004**

Getting out of hell

“Either you innovate or you’re in commodity hell.”

Samuel Palmisano, CEO and Chairman of IBM



Creating value

Sustainability Report 2005

PHILIPS

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paul.verdin@ulb.ac.be

Great for customers but losing money

Businesses show net loss

The internet has boosted consumer consciousness of the services that are travelling



THEORY AND PRACTICE

The internet has boosted consumer consciousness of the services that are travelling. This has led to a surge in demand for services that are not yet fully developed. The result is a net loss for many businesses. This is because the cost of providing these services is often higher than the revenue generated. This is especially true for businesses that are just starting out. They often have high fixed costs and low variable costs. This means that they need to sell a large number of units to break even. If they do not sell enough units, they will incur a net loss. This is a common problem for many small businesses. It is important for these businesses to carefully manage their costs and to focus on selling a large number of units. This will help them to break even and eventually become profitable.

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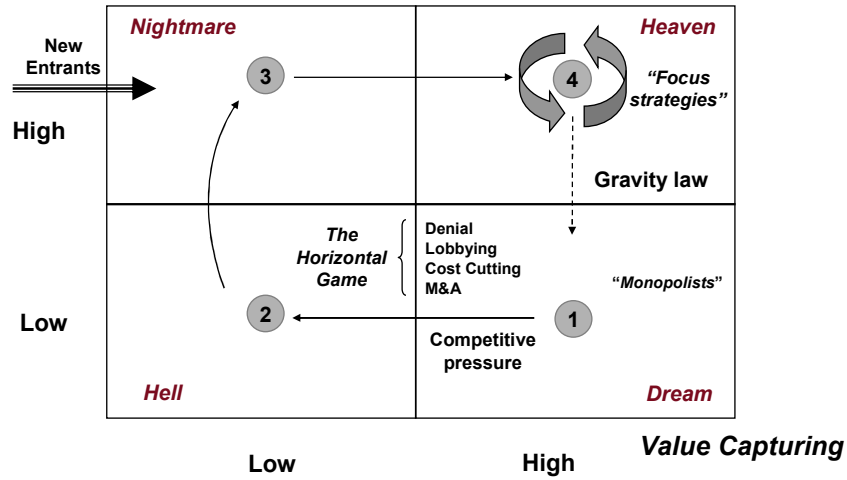
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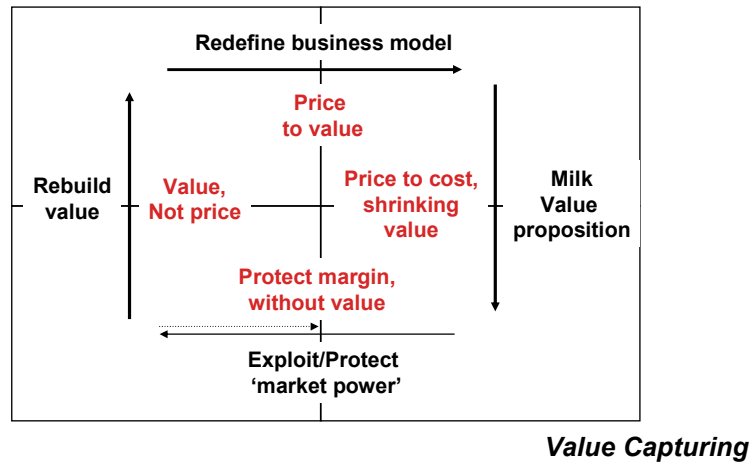
Creating and Capturing Value

Value Creation



Value Creation and Value Capturing

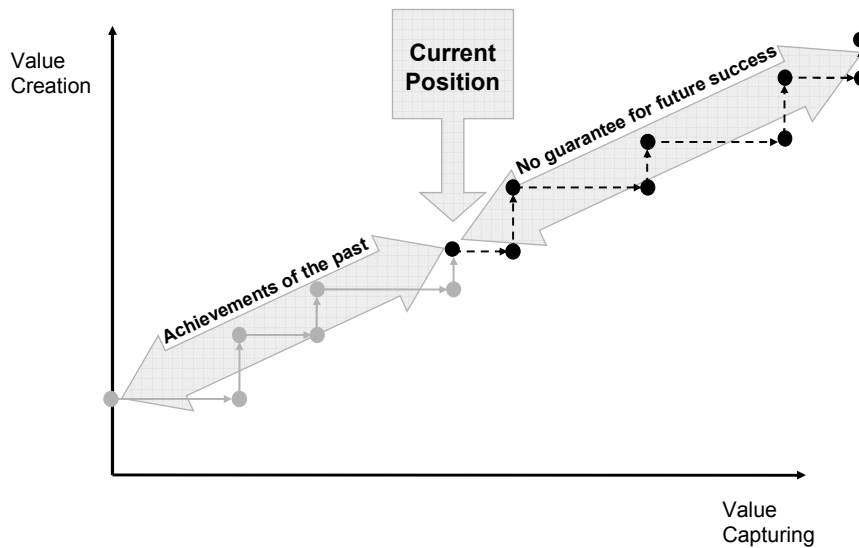
Value Creation



A step-by-step process probably more realistic

- Value creation comes first
- Value capturing needs to follow fast
- Step-by-step
- A continuous process of innovation and value creation
- A pre-condition for improving or protecting returns

In Competitive Markets: A Never-ending Story



The Value Added of Management

- Getting the right people in the right place
- Developing, evaluating and promoting them
- Human resources *system*

It's all about People !

Conclusion

Some issues to ponder...

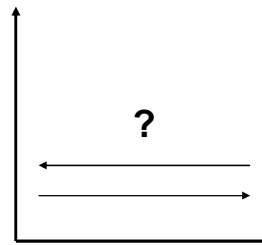
Issue 1:

Is our business becoming:

MORE COMPETITIVE

or

LESS COMPETITIVE ?



Issue 1 (cont'd)

- If less competitive

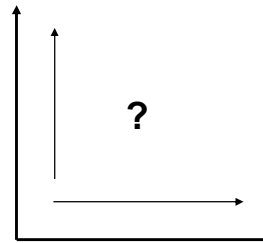


Value capturing is an option

- If more competitive



Need to create more value,
before we can start capturing some of it

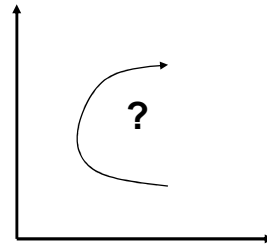


Issue 2

What should we do more of, less of
in order to get away from **value capturing**?

What should we do more of
to create sustainable value
and competitive advantage?

Value creation



Issue 3

How do we see our value creation-capturing
path and process?

How should we move?

What concrete actions do we need to take?

How will we keep going?

