Value Net

Idea In Short

The Value Net Model is a business model that shows how to benefit from collaboration. This model advocates for both, co-operation and competition among organizations. This dynamic is not only desirable, but also necessary when conducting business. This is in stark contrast to traditional thinking, which argues that such competition impedes business success and profits.

For many years, academics and consultants have recognized the importance of strategic alliances. In 1996, Adam Brandenburger and Barry Nalebuff coined the term the term Value Net in a theory in their book titled, Co-Opetition. In this book, The model is based on the premise that a company can network and cooperate with different "players" to everyone's advantage. It does not presume collusion with competitors which would be illegal in most markets.the authors discuss a new notion of competition. By combining Business Strategy and Game Theory, the authors advocate for collaboration, rather than competition. They argue that it is better for competitors to work together instead of going up against each other in competition. Correspondingly, strategic alliances, or networks, form the the foundations of the Value Net framework. Co-opetition (or coopetition) combines the advantages of both competition and cooperation into a new dynamic model - the Value Net Model.

Co-opetition

The Value Net model is largely an elaboration of Porter's Five Forces Model. In their eyes, Porter's Five Forces focused almost entirely on competition and failed to include the collaborative potential in an industry. When companies collaborate, they can create a larger and more valuable market than they individually could. Therefore, industry players should focus more on growing the pie, rather than splitting up the pie.

> After all, it's better to own 10% market share of a $100 billion market than to own a

90% share of a $2 billion market.

Sustainable business success does not come solely from successfully competing in an industry i.e. playing the game. Instead, organizations should actively shape the industry's future i.e change the game to their own advantage. Hence, this model shows how it is possible to work with other companies in a market to add value for customers.

Value Net Model

The Value Net identifies four types of players that every company faces. These players could directly influence a company:

- Customers
- Suppliers
- Competitors
- Complementors

Each of these players, including the competitors, offer opportunities for cooperation with a company. Any given player can take on multiple roles. For example, a company can act as both, a Supplier and a Competitor.

Customers

Customers are the people or parties that buy your product or service. In return, money goes from the customer to your company. Without customers, a company doesn't have a reason to exist. More customers means more revenue. In turn, this leads to a larger market share and more customers, creating a flywheel effect. Customers can be end-consumers or other companies that take your products to the consumer market. Porter's Five Forces categorizes this segment as Buyers.

Suppliers

Suppliers provide your company with the resources you need to produce or sell your final products. Hence, they are important external factors to consider. Suppliers can raise prices and / or reduce the quality of the purchased inputs. Therefore, it is important to maintain

good supplier relationships. Alternatively, you can spread risk by sourcing from multiple suppliers.

Competitors

Competitors are the parties that fight over the same market share as your company. They target similar customers with similar products or services. However, companies often view competition way too narrowly. Consequently, they fail to foresee upcoming threats. For example, you would consider two airlines with the same destinations competitors. However, you wouldn't consider two railroad companies with international high-speed trains competitors, despite the companies fulfilling the same customer travel needs. Hence, the new definition of competition:

> A player is your competitor if customers value your product less when they have the other player's product than when they have your product alone.

Likewise:

> A player is your competitor if it's less attractive for a supplier to provide resources to you when it's also supplying the other player than when it's supplying you alone."

Actually, you can perfectly collaborate with your competitors, even though you brawl over market share. On the supplier side, competitors could combine forces when purchasing similar raw materials. Through bulk purchasing, you can negotiate discounts and lower the cost per unit. Similarly, you can even collaborate on the customer side. For example, the automotive industry is witness to a lot of co-operation:

> in 1999 Renault and Nissan started a strategic alliance in order to benefit from each others' complementary capabilities. Both companies had strong positions in different geographical markets which would help with international expansion. Moreover, Renault could benefit from Nissan's excellent manufacturing capabilities, while Nissan could rely on Renault's strong financial resources. By combining forces they were better able to offer high-quality vehicles to their customers for competitive prices.

In summary, the competitor category of the Value Net combines the Existing Rivalry, New Entrants and Substitute Products from Porter's Five Forces into one force.

Complementors

Many business owners and managers fail to consider this important industry players. Rather than competitors, this category includes players that offer complementary products or services. Their offerings could extend your own products and services, making them more attractive to consumers. For example, think about software and hardware companies working together to enhance customer experience.

> A player is your complementor if customers value your product more when they have the other player's product than when they have your product alone

Likewise:

> A player is your complementor if it's more attractive for a supplier to provide resources to you when it's also supplying the other player than when it's supplying you alone

Another example of complementary players comes from the airline and tourism industry. When consumers reach a tourist destination via an airplane, they are likely to vist a hotel, camping or a rent a car. These industries offer complementary services. Hence, it makes sense for them to forge strategic partnerships and offer a more complete customer value proposition. As this example demonstrates, companies are well-advised to consider such when analyzing the industry. Complementors are not included in Porter's Five Forces. Yet, they are highly relevant. Hence, it is often included as The Sixth Force.

Summary

Managing your business in a highly competitive environment doesn't mean that you have to

hit competitors head-on. There may be opportunities for collaboration with different players in the market that will add value to your offer. It requires a deep understanding of what your customers want and need.