Value Innovation

Idea In Short

Value innovation strategy is based on the simultaneous pursuit of differentiation and low cost. It is an and-and, not an either-or strategy. It is different from competitive strategy, which is based on cost leadership, differentiation and focus strategy. Value innovation strategy seeks to break the value-cost trade off by eliminating and reducing factors an industry competes on and raising and creating factors the industry has never offered.

Innovations are major drivers of long-term corporate growth. The Value innovation framework is based on a reconstructionist view of dynamic markets. According to this view, market boundaries and industry structures could be shuffled and reconstructed by the actions and beliefs of the incumbent industry players. Unlike conventional approaches to strategy, W. Chan Kim and Renée Mauborgne put the customer, not the competition, at the center of strategy. This customer-first strategy is at heart of several successful firms, such as Amazon, Netflix, etc. These firms place equal emphasis on value creation and continuous innovation.

Value Drivers

The Blue Ocean Strategy is a hybrid strategy that simultaneously pursues differentiation and low cost. This combination ensures that innovation is not just technology-driven and futuristic, but rather grounds strategy to what really matters to customers. Due to the fact that many products offering a plurality of functions that customers neither value nor use, value innovation has not to be a technical enhancement. Value innovation happens only when companies align innovation with utility, price and cost. In other words, companies should abandon the commonly accepted cost-value trade-offs that underlie competition-based strategies that mandate companies to make a choice between differentiation and cost leadership. Those seeking blue oceans should simultaneously pursue differentiation and low cost: drive costs down and deliver more customer value. Improving utility while reducing price will increase customers' total value. As a result, value innovation benefits both, the customers and the company.

Implementing Value Innovation

Value Innovation is the cornerstone of the blue ocean strategy. In creating new markets, value to customers comes from the offering's utility minus its price. Likewise, the value created for the business is the price of the offering's less its cost. Value innovation is achieved only when the whole system of utility, price, and cost is aligned. To discover a Blue Ocean, Kim and Mauborgne recommend that businesses consider what they call the Four Actions Framework (Eliminate-Reduce-Raise-Create Grid) to break the value-cost trade-off and craft a new customer value proposition. The framework poses four key questions:

- **Eliminate**: Which of the factors does the industry takes for granted that should the business eliminate?
- **Reduce**: Which factors should a business reduce well below the industry's standard?
- **Raise**: What factors should a business raise well above the industry's standard?
- **Create**: What factors should a business create that the industry has never offered?

Eliminate factors taken for granted

Look at what features the market assumes will be part of the product / service that are not necessary and do not deliver a lot of value. By removing superfluous / non-essential items from the offering that don't add customer value, you can reduce cost. For example, Cirque du Soleil took out animals in their circus shows. As they were targeting adults, animal performances were not important to entertain adults; animals at circuses were mostly for the kids. By eliminating animal shows, Cirque du Soleil reduced the of costs of maintaining and transporting the animals.

Reduce factors below the current standard

Reduce features well below the industry standard to reduce cost. The market may still require these features, but not to the degree they are currently offered. A good example for this is the Nintendo Wii, where the company reduced the graphic processing power well below the other products on the market. Top notch graphics performance was not important for their target segment - children and the elderly. Below-average graphic performance with caricature images were much more appealing to this segment.

Raise factors that are currently not meeting market desires

Raise factors well above the industry standard to remove compromises the existing options force customers to make. Apple is a great example of this. With iPod, Apple made it easier to have all your music on your computer and easily move it to your iPod if you wanted to take it on the go. Before this feature was available, the alternative options were very cumbersome to users.

Create factors never before offered

Create features that have never been offered before that would add tremendous value. Cirque du Soleil added dance, songs and an original music score to the traditional circus. As a result, this added value for adult women, who were part of their new target audience.

Case: Google Moto

When Google announced the Moto X in 2013, it offered something that had never been done before with smartphones – complete color customization. Previous phones usually came in either one or two colors at the most. With the Moto X, anyone could go online and choose their own color scheme. Google then manufactures to those specifications in Texas and ships the product out from there. Google promised to deliver the product within 6 days of placing the order. By allowing customers to customize their phone's colors according to their specific preferences, Google in essence created a new way for smartphones to provide value. By doing so, they essentially made themselves the only option in the market for that particular value proposition. Instead of competing on specs, features or price, Google created a blue ocean for themselves by enabling consumers to experience something completely new and different.

Summary

With Blue Ocean strategy, businesses can systematically think through ways to create value for their customers versus the competition. Obviously, with each idea generated, further analysis is required to validate whether those ideas are valuable to customers. Nevertheless, the Value Innovation Framework provides a fast and analytical approach to ideation and innovation.