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Deconstructing the value proposition of an innovation exemplar

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Abstract

Purpose – Research into the identification and development of value propositions has recently been identified as a key research priority by the Marketing Science Institute. The purpose of this article is to identify and develop a process for value proposition deconstruction that can help organizations transform their value propositions in order to gain an improvement in their competitive position.

Design/methodology/approach – A case study of an exemplar organization in the health care sector is used to develop an approach for value proposition deconstruction. Using the business system concept as a theoretical framework, the key value-adding elements that comprise this organization's value proposition are identified. A leading financial services firm is used to demonstrate how this learning approach can be successfully applied in developing a new and innovative value proposition.

Findings – Using the business system framework, a structured process for deconstructing value propositions is developed. This framework is extended to explicitly acknowledge the value-in-use that results from different encounters, to incorporate learning processes and to recognize its interactive and recursive nature.

Practical implications – The authors provide practitioners with insight into how to formulate new or improved value propositions.

Originality/value – This work addresses two important and previously unaddressed research questions: how can the process of deconstruction of an exemplar organization's value proposition provide a more comprehensive understanding of the elements that comprise a superior value offering; and how can this process be applied to other organizations seeking to improve their value proposition?

Keywords Marketing, Value analysis

Paper type Case study

Introduction

The customer value proposition has become one of the most widely used terms in business (Anderson *et al.*, 2006). Webster (2002, p. 61) argues the value proposition "should be the firm's single most important organising principle", while Kaplan and Norton (2001) consider it is "the essence of strategy". However, a recent survey of over 200 companies found that, while many companies use the term in their everyday discussions, less than one in ten companies formally develop, communicate and use

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value propositions (Frow and Payne, 2008), suggesting that it is not widely used as an important organising principle. Our literature review identified few examples of how organisations develop value propositions and little in the way of scholarly efforts to deconstruct value propositions into their constituent parts with a view to applying such leaning to other organisations. The process of deconstructing an organisation's value proposition is important as it enables the identification of the key building blocks by which superior value is offered to customers. Considering the importance of this topic (Webster, 2002), a study that addresses this gap in the literature is long overdue.

Given the lack of prior work addressing this issue, we adopt a discovery-oriented approach (e.g. Bendapudi and Leone, 2002; Zaltman *et al.*, 1982) to identify and develop an approach for deconstructing the value proposition of an exemplar organisation. In doing so, we address two important research questions regarding the value proposition concept that have been emphasised in recent scholarship: (1) how can deconstruction of the value proposition provide a more comprehensive and transparent understanding of the differentiating and cost-based elements of a superior value offering to customers; and (2) how can the process of value proposition deconstruction be applied to other organisations in order to improve their competitive offering? Research into the identification and development of value propositions has been highlighted as a key research priority for the period 2010-2012 by the Marketing Science Institute (2010), while Ostrom *et al.* (2010, p. 8) specify 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.

This article is structured as follows. First, we discuss the value proposition concept. Second, we examine the concept of deconstruction in the context of value propositions. Third, we explain how one exemplar enterprise, Shouldice Hospital, was selected as a case study on deconstruction. Criteria for selection of the case study and the research method employed are reviewed. Next, we deconstruct the Shouldice value proposition into its constituent parts and propose that the learning from this approach can be applied to other organisations. We then provide an example of how a large global firm, in a completely different industry sector, has successfully used the learning from Shouldice's deconstruction to develop a new value proposition. Finally, the article concludes with a discussion of the research contribution, managerial and policy implications, and proposals for future research.

Our research makes the following theoretical contributions: we develop a structured case-based process for value proposition deconstruction utilizing the "business system" framework (Bales *et al.*, 2000); we extend the business system concept to explicitly recognise the "value-in-use" that arises from the customers' processes, as well as those of the firm, thus emphasising the importance of co-creation; and we offer insights into how value proposition deconstruction may be used by organisations to formulate or improve their value propositions. Our managerial contribution is to provide practitioners with an approach for building new or improved value propositions.

The value proposition concept

The customer value proposition concept was first discussed by Bower and Garda (1985), but it was not until some years later that a comprehensive description of the value proposition and a structured approach for representing it was published (Lanning and Michaels, 1988). The latter authors define a value proposition as "what

precise benefit or benefits at what price will be offered to what customer group, at what cost" (p. 3). It is thus concerned with how the firm plans to deliver superior value to customers (Webster, 2002).

A number of scholars point to the link between superior value propositions and organisational performance. Lusch *et al.* (2010) and Parnell (2006) state that firms that develops the most compelling value propositions will have the best organisational performance. Several authors (e.g. Huang and Hu, 2004; Kaplan and Norton, 2000; Sim and Koh, 2001) argue that more effective execution of value propositions leads to sustained competitive advantage and improved financial performance. Kambil *et al.* (1996) analyse a number of market value leaders and find that these companies consistently created superior value propositions and architectures for delivering value to customers, creating unique and defensible positions. Further, Cavaleri (2008) argues that assessment of an enterprise's value proposition is a key means of judging its future success.

Although scholars refer to the link between superior value propositions and organisational performance, the topic of the value proposition itself has received relatively little detailed research attention in the academic literature. Work that does exist falls mainly within the literature on strategy and business models (e.g. Kaplan and Norton, 1996; Treacy and Wiersema, 1995), business processes (e.g. Christensen *et al.*, 2008; Srivastava *et al.*, 1999) and supply chains (e.g. Martinez and Bititci, 2006; Tuominen, 2004). However, much of this literature does not address value propositions in detail. We now undertake an overview of existing research on value propositions relevant to this current paper.

Treacy and Wiersema (1995) brought increased attention on value propositions in the context of their discussion of three value disciplines: operational excellence, customer intimacy, and product leadership. Kambil *et al.* (1996) develop the concept of a value map aimed at identifying strategies relating to the benefits and costs of different competitive propositions. Later work by Lanning (1998) emphasises the experiential nature of value propositions and Anderson *et al.* (2006)) propose that organisations typically adopt one of three approaches in developing value propositions: all benefits, favourable points of difference, and resonating focus. They contend that the third approach is preferable, as it emphasises key attributes critical to customers. Rintamaki *et al.* (2007) propose four broad categories of value propositions according to the value they reflect: economic value (based on price), functional value (based on specific functional needs), emotional value (based on experiential needs), and symbolic value (based on self expression needs).

As discussed further in the next section of the paper, differentiators have an important role in developing value propositions. The nature of how differentiators add value has attracted significant research attention, especially as differentiation allows a firm to compete successfully. Competing on product and price alone is often insufficient, especially in mature markets. Mudambi *et al.* (1997) offers a useful categorisation of the tangible and intangible attributes that influence purchase decisions in including product, distribution, support services and the company. In a business-to-business context, Ulaga and Eggert (2006) focus on relationship value and identify that core differentiators include personal interaction, service support and supplier's know-how; and that these differentiators are often more important than cost considerations. Other differentiators include service-based solutions (Matthyssens and Vandenbempt, 2008), adopting a proactive orientation towards the customers' needs (Blocker *et al.* 2011) and other intangible assets. These studies are relevant to this case

study research in investigating the differentiating attributes of an organisation. Although most of this work does not specifically explore the role of value propositions, their findings do focus on the attributes of value confirm the significance of creating superior value offerings in competing successfully. This work provides support for the importance of this current research.

Building on earlier work, O'Cass and Ngo (2011) highlight the importance of the product-based and relational benefits that are important to value propositions. These authors emphasise that in addition to performance and pricing-based benefits, relationship-building value and co-creation value also form part of the value offering. Their third element, relationship-building value, is especially important as customers increasingly require a more holistic offering (Mittal and Sheth, 2001). Their fourth element, co-creation value is also important as the goal is now to "mobilise customers" (e.g. Normann and Ramirez, 1993) as the customer is a co-creator of value (Vargo and Lusch, 2004).

Work by Vargo and Lusch (2004, 2008) has recently called attention to the value proposition concept, as it forms one of their foundational premises. They argue that an enterprise can only offer a value proposition and propose that value is not delivered by an enterprise to a customer, but is co-created in use (Vargo and Lusch, 2004). This led to further work by Ballantyne *et al.* (2011), who develop a communication view of value propositions and research by Frow and Payne (2011) that argues for the application of the value proposition to other stakeholders. A related contribution by Kowalkowski (2011) examines value propositions in the business-to-business context, stressing the potential of involving customers in co-creative activity.

A consideration of this research and Lanning and Michaels' (1988) original definition of value proposition suggests that a shift in focus is needed from mechanistic "delivery of value" towards a more experiential and relationship-based concept (e.g. Frow and Payne, 2011). Accordingly we offer the following definition: A value proposition is an organisation's offering to customers, representing a promise of benefits of value that customers will receive during and after the usage experience. It identifies both product and experiential benefits and costs (or sacrifices) that result from the relationship between customer and organisation. A superior value proposition represents an offering to customers that adds more value or solves a problem better than other similar competitive offerings.

Several of the conceptualisations and categorisations described previously are of relevance to the present study, specifically: providing a format for representing a value proposition (Lanning and Michaels, 1988); approaches to developing value propositions (Anderson *et al.*, 2006); forms of value (O'Cass and Ngo, 2011; Rintamaki *et al.*, 2007; Ulaga and Eggert, 2006); and recognition of the role of co-creation (Ballantyne *et al.*, 2011; Kowalkowski, 2011; O'Cass and Ngo, 2011). However, none of this prior research provides a structured process for deconstructing value propositions or addresses the value proposition research priorities identified by the Marketing Science Institute (2010) and Ostrom *et al.* (2010).

We contend that in-depth analysis by way of deconstructing the value proposition of a best-in-class exemplar company can yield insights of particular value to other organisations seeking to develop innovative value propositions. Without an established, structured process, organisations are much less likely to benefit from generalised descriptions or case studies of best-in-class companies with winning value propositions.

Deconstruction

Our experience as management academics has shown us that executives become highly motivated when studying cases of best-in-class companies, but find it difficult to successfully apply the learning to their own organisations. Case studies of successful companies in the management literature are typically developed with little thought given to the explicit identification of their value proposition and consideration of its key elements.

Deconstruction involves the practice of critically taking apart what is socially constructed (Goodall, 1991). The purpose of deconstruction is to question what is "taken for granted" and how things "got this way" (Eisenberg and Phillips, 1991). Within the management and marketing literatures there is increasing interest in the concept of deconstruction (Ehrensberger *et al.*, 2000). This concept has been considered in various industry and managerial contexts, including: the telecommunications industry (Feng and Whalley, 2002); SMS text messaging (Turel *et al.*, 2007); the oil industry and retail banking (Bresser *et al.*, 2000); the information economy (Evans and Wurster, 1997); pioneer firm's advantage (Bohlmann *et al.*, 2002); entrepreneurial orientation and business performance (Hughes and Morgan, 2007); and customer evangelism (Collins *et al.*, 2010). Deconstruction addresses what DeSarbo *et al.* (2001) point to as a key part of business strategy – understanding what customers value and creating value for them over time. We considered the industry level, the methods, the findings and the contributions of these papers. Some of these studies were undertaken at an industry level (Bresser *et al.*, 2000; Ehrensberger *et al.*, 2000; Feng and Whalley, 2002) and some at a much more micro level, such as focusing on the deconstruction of an employee handbook (Goodall, 1991). Among the approaches used were transaction cost analysis (Feng and Whalley, 2002), statistical studies of relationships across firms (Hughes and Morgan, 2007), technology solution usage (Turel *et al.*, 2007) and a post-modern analysis (Goodall, 1991). However, we did not identify any prior research addressing deconstruction at the firm level or dealing with an enterprise's value proposition.

The rationale for the present research is that deconstructing an exemplar company's value proposition can provide practitioners with new insights and a new approach for creating or redeveloping their own value propositions. A case study is an ideal method where an in-depth investigation is needed (Feagin *et al.*, 1991). A case study approach is especially suited to practice-based research problems involving the creation of managerially relevant knowledge (Amabile *et al.*, 2001).

The theoretical framework we use to deconstruct the value proposition is that of the "business system" (Gluck, 1980; Bauron, 1981; Bales *et al.*, 2000). The business system provides a coherent framework for structuring the analysis and deconstruction of a value proposition and in identifying the sources of value involved in creating and delivering a company's offering. Later work by Porter (1985, p. 36) on the value chain draws heavily on the business system concept. We utilize this concept to deconstruct the value proposition, rather than the value chain, because: the business system addresses specifically the criticisms of linearity and unidirectionality inherent in the value chain (e.g. Normann and Ramirez, 1993) and which argue that the value chain does not sufficiently emphasise the value-creating system itself; our research is largely unconcerned with the value chain's "support activities", which represent a significant part of Porter's model; and the literature draws an explicit link between the business

system framework and the value proposition concept – as Coyne (2009) explains, "The word system in business system emphasises the importance of aligning conduct at every step with the value proposition" (p. 1, emphasis added). No such link is made in the value chain literature (e.g. Porter, 1985, 1991; Porter and Siggelkow, 1999).

Method and data collection

Our method commences with the selection of a suitable exemplar enterprise. The "unit of analysis" (Yin, 2009) is the value proposition of an exemplar company. Yin (1984, pp. 47-8) outlines several alternative rationales for selecting a single-case study. The case we selected meets the rationale of an "extreme or unique case". It can also be considered a "revelatory case" as, to our knowledge, no prior study has utilized business system or value chain analysis to examine and deconstruct a value proposition. In considering the suitability of enterprises for study, the researchers established four criteria. First, the enterprise must be acknowledged as a best-practice exemplar within its sector. Second, the enterprise should have an existing innovative value proposition. Third, co-creation should make an important contribution to its value proposition, reflecting the important links between value propositions and value co-creation (e.g. Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004). Finally, following Flyvberg's (2006) recommendation, the choice of case should exemplify "information-oriented selection" as this can increase generalizability.

The two researchers independently compiled a list of potential case studies drawing on a number of sources, including lists of top innovation companies, best-selling case studies, and academic and practitioner publications. A shortlist of seven enterprises was jointly developed. After an investigation of each alternative, they selected Shouldice Hospital as a best-in-class exemplar especially suited for value proposition deconstruction. Shouldice Hospital meets all the previous criteria. It is regarded as being one of the world's best service companies and has even been identified as the "world's best hospital" (e.g. Heskett *et al.*, 2003; Frei, 2008). It is regarded as having an outstanding, innovative value proposition (Hwang, 2009). Further, because of the high degree of psychological and physical involvement on the part of customers (Ferguson *et al.*, 2010), co-creation forms an integral part of the service system at Shouldice (Heskett *et al.*, 2008). Finally, we identified a considerable amount of existing data on Shouldice, including publications in the medical and managerial literature, and thus our choice was an information-oriented selection.

Data collection

In the collection of data for this case study, we follow the positivist approach advocated by Yin (1984, 2009), who recommends the use of multiple sources of data. Yin lists the following as sources that can be used in case study protocol: documentation, archival records, interview, observation, and physical artefacts. Not all are typically used in every case study, but as Yin (1999, p. 1217) points out, "the more all of these techniques are used in the same study, the stronger the case study evidence will be". Further, potential bias in the researchers' collection and analysis of case data can be counteracted by triangulation involving the use of multiple data sources (Miles and Huberman, 1984). Our research involved triangulation of data collection from most of the sources recommended by Yin (1984), as shown in Table I. This included: a review of published materials and documents from Shouldice; extensive materials on the

Data sources	Source details	Main contribution to findings
Review of academic and managerial literature on Shouldice Hospital	Heskett *et al.*, 2003; Herzlinger, 2004; Urquhart and O'Dell, 2004; Christensen, 2007; Ferguson *et al.*, 2007; Frei, 2008; Gummesson, 2001a, 2009	Considerable detail regarding the nature of hospital's activities and operations including target customers and philosophy
Video documentary and audio transcript	Observation and analysis of transcription of video from Canadian Broadcasting Commission (1991). Extensive coverage of two hernia operations, the hospital's facilities and interview with founder's son regarding "The Shouldice Philosophy"	Detailed observational insight into operational processes. Identification of cost drivers. Customer insights into differentiators. Verification of earlier analysis
Interviews, discussion and correspondence, and a formal presentation	Business Development Director, Shouldice Hospital	*Initially*: Management philosophy and clarification of details particularly relating to cost drivers *Later*: Input and "member check" of value proposition statement and case study
Field visit report and two in-depth case studies	Metters, 2008; Heskett and Hallowell, 2004; Pope *et al.*, 1997	Verification of differentiators and cost drivers identified during observation and interviews
Patient interview	Interview and detailed discussions with patients regarding the "customer activity cycle" (Vandermerwe, 2000) and Shouldice' s approach to customer management	Customer insights and verification of differentiators
Shouldice Hospital documentation	Extensive written materials and on-line materials produced by Shouldice	Insight into hospital procedures, self-diagnosis, operations, cost drivers and operational efficiencies, etc.
Review of medical literature on the Shouldice Method and other methods of hernia repair	Bendavid, 1989, 2003; Bendavid *et al.*, 2001; Papadakis and Greenburg, 2002; Shouldice, 2003; Welsh and Alexander, 1993; Hay *et al.*, 1995; Rutkow, 1998; Bax *et al.*, 1999; Schneider *et al.*, 2008	Understanding of alternative methods of hernia repair, detailed accounts of Shouldice method, scholarly reporting of hernia operation success rates and other related medical information
Observation	Observation of hernia operations in operating theatres of a general hospital and a specialized hernia clinic. Field notes were produced following observation	Identification of cost drivers associated with all aspects of business system. Identification of differentiators, based on customer behaviour
Shouldice Hospital patient surveys	Ferguson *et al.*, 2007; Ferguson *et al.*, 2010	Customer insights into operational processes and differentiators
Discussion forum	Comments from 35 former patients on health forum web site (ehealthforum.com, 2010)	Identification and verification of differentiators

Table I.
Method: data collection, sources and contribution to findings

Shouldice web site; two in-depth case studies; interviews, discussion and correspondence with the Shouldice Business Development Director and a separate formal presentation by him; observation via a detailed video documentary on Shouldice; observation of operations in a hernia clinic and a general hospital; an in-depth interview with a patient; two patient surveys; patients' comments on a heath forum web site; a field visit report on the hospital; published material in the academic and business press; and a review of the medical literature on the Shouldice method and other methods of hernia repair. Facts were typically supported by more than one source of evidence (Yin, 2009) and the multiple sources permitted compilation of "thick" descriptive material.

Method

Using these data sources, the researchers progressively examined and interpreted the data to provide an overview of the operation of Shouldice Hospital, to identify Shouldice's value proposition, to determine the discrete activities, or components, of Shouldice's business system and, more substantively, to identify and categorise the many specific elements of value-adding activity that collectively represent Shouldice's value proposition. The research logic involved an "abductive" approach (Dubois and Gadde, 2002; Walton, 2005), which combines induction and deduction and seeks to match theory and reality by a nonlinear process of combining observations, insights and an ongoing exposure to relevant literature. In our research, this involved "going back and forth between framework, data sources, and analysis" (Dubois and Gadde, 2002, p. 555).

An abductive research approach is particularly appropriate to a single-case study, especially where multiple data sources can contribute to revealing new aspects and dimensions of the issues being investigated (Dubois and Gadde, 2002). These multiple data sources were especially helpful in gaining a comprehensive understanding of Shouldice Hospital's activities. Details of the research method are explained below.

Research method

Phase 1: Collection of data and review of data sources

- Collection of data from the multiple sources outlined in Table I.
- Starting with the most detailed and comprehensive sources, including a transcription of the video documentary, each set of data was studied in detail to ensure a "rich picture" (e.g. Hoskisson *et al.*, 1999) of the organization.

Phase 2: Value proposition development

- Independent review of data sources by the two researchers. Detailed notes and memos developed on Shouldice's value proposition.
- Three meetings of researchers. Comparison and refinement of draft notes. Using the structure proposed by Lanning and Michaels (1988) for representing a value proposition (including description of target customers, key benefits offered, price relative to competition and summary statement of value proposition) the researchers iteratively developed and refined a draft value proposition statement.

- Draft was subject to a "member check" (Hirschman, 1986; Wallendorf and Belk, 1989) by Shouldice Business Development Director.
- Following minor modification, the value proposition statement was finalized.

Phase 3: Identification of business system

- Independent consideration of Shouldice's business system by researchers.
- Draft of business system activities was independently developed by researchers and then compared.
- Development of an initial business system representation, minor modification and member check.
- Finalization of business system for value proposition deconstruction. (This approach is consistent with Ehrensberger *et al.*'s (2000) recommendations on deconstruction.)

Phase 4: Analysis of data

- Differentiators and cost drivers confirmed as most appropriate factors to use for value proposition deconstruction, based on definition of the value proposition (Lanning and Michaels, 1988) which specifically identifies benefits (achieved by differentiation of value to customers) and cost competitiveness (achieved by cost drivers) as the main constituents of the value proposition.
- In order to achieve "triangulation across researchers" (Belk *et al.*, 1989), which permits with a check on completeness and interpretation from different researchers' viewpoints (Wallendorf and Belk, 1989), the researchers worked independently.
- Researchers considered cost drivers and differentiators for each component of the business system. The researchers each highlighted relevant sections in separate copies of the text of materials and transcripts. Video documentary material viewed several times by each researcher. Detailed notes compiled based on what researchers observed in the video material.
- Researchers coded each identified element, including where each cost driver or differentiator fitted within the business system. Analysis followed the constant comparative method (e.g. Glasser and Strauss, 1967), whereby findings from the next piece of data were progressively compared to previous data.
- The researchers continued this process individually until they each considered that they had identified key elements of Shouldice's value proposition.

Phase 5: Deconstruction of value proposition

- The researchers met and reviewed their findings at several lengthy meetings in order to discuss and agree the key elements within each part of the business system. These elements were then coded in a spreadsheet so their role as a differentiator or cost driver for different parts of the business system was classified.
- Overall, a very high degree of consensus was achieved between the two researchers in their representation of the value proposition deconstruction. Minor

differences related to where some elements were identified as being both a cost driver and a differentiator, or where they had an impact in more than one part of the business system.

- A small number of variances, five in total, were resolved through discussion, revisiting the data sources and through subsequent member check by the Shouldice Business Development Director.
- A joint list of 115 differentiators and cost drivers was finally developed.
- The business system analysis, the cost drivers and differentiators, the value proposition deconstruction (shown later in Appendices 1 and 2 and Figure 1), the case study description final and the version of the manuscript are based on research that reflect both researcher consensus and member check.

The researchers commenced their research with the examination of the most detailed and comprehensive data sources. The order of the data sources listed in Figure 1 broadly reflects the order in which data sources were utilized. However, the use of data sources was iterative and recursive, rather than linear, reflecting the abductive research approach. Column 3 in Table I indicates the main contributions of different data sources. Data sources, including interviews, observation, patients' surveys and forum communication, provided the foundational data set for identifying the business system, differentiators and cost drivers. This data were further refined, extended and verified using further data sources including Shouldice hospital documentation, academic and managerial literature and the review of the medical literature on hernias. Most of the findings from this analysis were confirmed by more than one source, with the exception of findings in the scholarly medical literature. The video material was especially helpful in validating earlier analysis. Thus the use of triangulation, involving the use of multiple sources and two researchers to independently assess the data, helped establish "confirmability" (Wallendorf and Belk, 1989).

Shouldice Hospital

The Shouldice Hospital Hernia Centre is located in Thornhill, a suburb of Toronto, in Ontario, Canada. The hospital, established in 1945, is renowned globally for its innovation and its sole specialisation in the repair of external abdominal hernias. Dr. Edward Shouldice founded the Shouldice Hospital based on an innovative method of hernia surgery that shortened recovery time. This method of hernia surgery involves several breakthrough ideas. First, the hernia operation is performed with a local anesthetic rather than a general anesthetic. Second, early ambulation following surgery contributes to a rapid recovery. Third, Dr. Shouldice designed an integrated hospital environment for hernia repair and recovery that emphasised patients moving about and exercising with the objective of hastening recovery. As demand increased, the facilities were expanded. The hospital currently has 89 beds, employs 12 surgeons and performs some 7,000 hernia operations each year.

The "Shouldice method"

The surgical techniques used for the treatment of hernia are generally classified into three categories: pure tissue repairs, such as the "Shouldice method" (e.g. Shouldice, 2003); tension-free repairs, such as the Lichtenstein technique (e.g. Lichtenstein and Shulman, 1986); and laparoscopy (e.g. Memon and Fitzgibbons, 1998). Whilst other

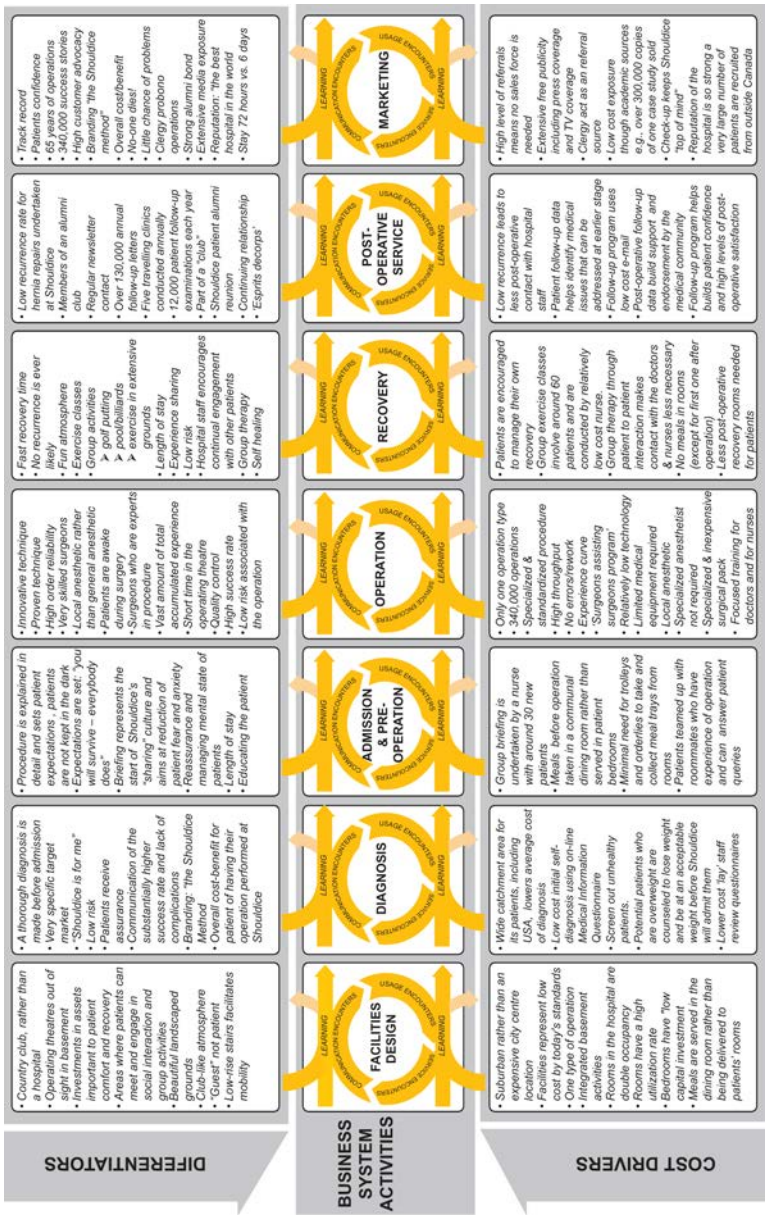

Figure 1.
Deconstruction of the Shouldice Hospital value proposition

techniques have been developed, the Shouldice method continues to be viewed as the "gold standard" in hernia repair (Hay *et al.*, 1995) and has proven to be exceptionally reliable, safe and cost-effective. The method involves using multiple layers of stainless steel wire. The area around the hernia is strengthened using a special technique that minimizes the likelihood of recurrence or other problems. And because the operation is carried out under local anesthesia, the risks associated with general anesthesia are avoided. This particular method, unique to Shouldice originally, is now more widely available. Although the technique was one of the original unique features of Shouldice, it is now more commonly available, highlighting the potential danger of the method not being applied with a high rate of success elsewhere.

The hospital itself benefits from scale and standardisation. An average general surgeon might only perform 25-50 hernia operations in one year, whereas Shouldice Hospital surgeons each perform up to 700 operations a year. Shouldice has repaired more than 330,000 hernias with a success rate greater than 99 per cent, and the almost nil recurrence is as close to zero defects as can possibly be achieved in a hospital (Gummesson, 2001a). Studies of other techniques of hernia repair in general hospitals show recurrence rates of 5-10 per cent (Hay *et al.*, 1995). Although this highly focused approach has benefits in terms of patient outcomes, there are potential downsides for a hospital providing such a service. Cross-selling and up-selling opportunities are lost. Over reliance on the provision of one service leaves the provider potentially vulnerable if, for example, a new superior technique is developed by competitors with lower costs and an equally high success rate in terms of outcomes.

Whereas some hospitals and clinics undertake day surgery for hernia operations, with patients returning home the same day, Shouldice has determined that for fast recovery, early ambulation must be achieved and maintained. By keeping patients at the hospital for three days, they become more mobile and accustomed to dealing with the recovery process. As a consequence, by the time of discharge, patients are confident that the hernia repair has worked and that continued physical activity will not produce complications (Shouldice, 2003). Although this decision has some cost implications for the patient, the likelihood of a successful outcome and therefore reduced recovery time, makes this option attractive to them.

The value proposition deconstruction that follows demonstrates how Shouldice has developed a unique service through careful integration of surgical intervention and co-creative patient engagement. A key factor contributing to Shouldice's success is the recognition that, in addition to anatomical interventions, psychological and social influences have a key role to play in recovery from a hernia operation (see Rintamaki *et al.*, 2007). At Shouldice, communication and shared experience from post-operative patients and a sense of belonging to a "customer community" spares patients much of the tension and anxiety that accompany an operation at a general hospital. Shouldice has transformed a potentially unpleasant and distressing hernia operation into a positive and memorable experience with extensive social interaction where, in some cases, lasting friendships are made.

The Shouldice value proposition

All enterprises have a value proposition (Oden, 1999), which may be explicit or implicit. Shouldice Hospital has a strong value proposition, but it does not have a formal value proposition statement (Urquhart, 2010). The absence of a value proposition is not

surprising. Lanning and Michaels (1988) note that often it is not known the extent to which a value proposition is developed methodically and documented, rather than evolving organically. Some implicit value propositions are successful because an entrepreneur has a clear vision (Lanning and Michaels, 1988), as is the case with Dr Shouldice.

The developers of the value proposition concept, Lanning and Michaels (1988), propose a structure for representing a value proposition through a formal statement of the target customers, the key benefits offered, the price relative to the competition, and a concise summary of the value proposition. As explained in our research method, using this structure and following a subsequent member check when some minor adjustments were made, we developed a value proposition statement for Shouldice, which is shown in the following list.

Shouldice Hospital value proposition

Target customer:

- Otherwise healthy males with a hernia who are willing to travel to Shouldice to receive the "gold standard" in hernia repair.

Key benefits offered:

- Highly skilled and specialized surgeons performing just one form of operation.
- Fast speed of surgery.
- High success rate.
- Exceptionally low incidence of complications and recurrence.
- Fast recovery and return to normal activities.
- Low likelihood of infection.
- Anxiety and tension reduction.
- Club-like atmosphere and group therapy – more like a country club than a hospital.
- Aftercare, checkups for life and long-term relationships.

Price relative to competition:

- Highly competitive low price – typically about half the costs for other methods of hernia surgery and recovery.

Summary of value proposition:

- Highly successful hernia surgery using a proven technique, "the Shouldice method", undertaken in a comfortable and supportive environment, with fast recovery and little likelihood of future problems.

Deconstruction of the value proposition

The research method list provides details of our procedure for identifying business system activities and deconstructing the Shouldice value proposition into the two key dimensions that constitute the underlying source of competitive advantage (Pearce and Robinson, 2005, p. 104) – cost drivers and differentiation drivers. Differentiation has a

long tradition in marketing and strategy (e.g. Chamberlin, 1933), as do cost drivers (e.g. Rummel, 1949). Sharp and Dawes (2001) and El Kelety (2006) provide detailed reviews of these concepts. Scholars argue that these two key dimensions constitute the underlying source of all value and competitive advantage (Porter, 1980, 1985; Porter and Siggelkow, 1999; Pearce and Robinson, 2005, p. 104; Foss and Sheehan, 2009). Differentiators and cost drivers are well established as a means of considering the business system (e.g. Porter, 1985, 1991) but, to our knowledge, there is no prior use of them for identifying the specific activities that constitute the value proposition. Our analysis resulted in the identification of six components in Shouldice's business system: design and configuration of facilities, diagnosis, admission and pre-operation, the operation, patient recovery, post-operative service, and marketing. These components were corroborated through member check.

The data collected from the triangulated research methods shown in Figure 1 resulted in a substantial amount of documentation. The data together contributed to a comprehensive understanding of Shouldice, but each data source offered either specific insights to particular aspects of the cost drivers and differentiators or confirmed previous findings from the data. To avoid the common criticism of case studies for referring readers to extensive archives of unreadable documents (Yin, 1984, p. 21), in the following we briefly explain the nature of each business system component and then present more detailed summaries of the key differentiators (see Appendix 1) and cost drivers (see Appendix 2).

Design and configuration of facilities: The facilities have been carefully designed to create what the hospital calls "the Shouldice experience" – a positive and memorable experience for the patient in lieu of what might normally be a traumatic one.

Diagnosis – pre-arrival and pre-operation: Planned procedures have been developed to ensure that only healthy patients, apart from their hernia condition, are operated on at Shouldice. All aspects of diagnosis carried out before arriving at Shouldice and before admission are aimed at ensuring a suitably qualified and screened patient base.

Admission and pre-operation: On arrival at the hospital, patients are examined by a surgeon to confirm that they are suitable for admission. Following a check, they are admitted and undertake a new patient orientation carried out by a nurse, rather than a doctor. Following dinner and recreation, they retire to bed in preparation for the next day's operation.

Operation: As explained previously, the Shouldice method involves several highly innovative concepts, including performing hernia operations under a local anesthetic, initiating early ambulation after surgery to facilitate faster recovery, and the benefits of a meticulously crafted hospital environment that integrates "mental medicine" and "group healing". The operation is designed to create a positive medical outcome, but minimizing cost..

Recovery: Shouldice encourages patients to interact extensively and build relationships with one another during their recovery. Many aspects of the recovery process act as both a cost driver and a differentiator. Although generally interaction between patients has positive outcomes, less sociable patients may find this "club-like" atmosphere unattractive.

Post-operative service: Once the patient leaves Shouldice Hospital, effort is made to maintain an on-going relationship with the patient and provide post-operative service. In what is possibly the largest and longest running post-operative follow-up medical

research program in the world, Shouldice gathers post-operative condition and satisfaction reports from all available former patients annually. By keeping in touch with patients, Shouldice reinforces continued confidence in the success of the operation.

Marketing: Shouldice is in an enviable position in that most of its marketing, the final business system activity, is achieved through word of mouth by patients and their relatives, as well as intermediaries such as referring doctors. Differentiators and cost drivers evident in other components are also involved in the marketing component of the business system. Although this inexpensive marketing strategy has proved effective in the past, increased competition of other hernia clinics may require additional and alternative strategies in the future.

Appendices 1 and 2 provide a more detailed summary of key cost drivers and differentiators that were identified within every part of the business system during our analysis. The purpose of these tables is to show a detailed representation of the cost drivers and differentiators that places Shouldice's business system in context. Clearly Shouldice's successful value proposition is based on a very extensive and interrelated set of cost drivers and differentiators. From our analysis, we assembled a large amount of written material relating to some 115 cost drivers and differentiators. Miles and Huberman (1984) recommend the use of data reduction and a visual display strategy to summarise data and to enhance case understanding. In Figure 1 we use a visual depiction to summarise this data and document the full set of cost drivers and differentiators that were identified.

Our representation in Figure 1 extends the business system concept in three ways. First, the depiction of business system activities addresses criticisms (e.g. Normann and Ramirez, 1993) that a value chain representation is linear and unidirectional and does not sufficiently emphasise the value-creating system itself. The arrows in the central part of Figure 1 emphasise the interactive and recursive nature of the business system. Second, Figure 1 highlights learning processes that involve both supplier and customer. This includes the process of "proportioning" (e.g. Payne *et al.*, 2008), in which customers "reflect on their own processes and how they engage in practices involving a supplier" (p. 88). Finally, our extension of the business system explicitly recognises that value arises from customer processes as well as those of the firm. It highlights the "value-in-use" (e.g. Vargo and Lusch, 2004, 2008) that results from communication encounters, service encounters and usage encounters. These three forms of encounter are highlighted conceptually (Payne *et al.*, 2008) and empirically in recent literature (Lemke *et al.*, 2011).

Our analysis of cost drivers and differentiators discussed previously and in Figure 1 provides a framework for identifying the key elements within Shouldice's value proposition. In considering the deconstruction of this value proposition, we identified two interrelationships that merit commentary. First, some cost drivers act as differentiators and vice-versa. For example, the decision only to perform a single type of operation at Shouldice and the low occurrence of complications and problems in the post-operative service component of the business system act as both differentiators and cost drivers. Second, some elements impact more than one part of the business system. For example, within the "operations" component of the business system, the use of a local anaesthetic rather than a general anaesthetic has an impact on other components of the business system, such as post-operative recovery.

A final consideration pertains to how Shouldice's focus on co-creation makes an important contribution to its value proposition – a dimension highlighted by O'Cass and Ngo (2011). Considerable attention has been given recently to the co-creation concept (e.g. Prahalad and Ramaswamy, 2000, 2004; Vargo and Lusch, 2004; Jaworski and Kohli, 2006; Payne *et al.*, 2008). Shouldice Hospital actively engages customers in a wide range of co-creation activities. This is in sharp contrast to most other hospitals, including ones we observed as part of our research. At Shouldice, the process starts with self-diagnosis and continues throughout the pre-operation, operation and post-operation activities. It involves a variety of forms of co-creation (e.g. Sheth and Uslay, 2007), including the involvement of the patient in the recovery (co-production), development of a shared sense of community (co-experience), collaboration between pre-operative and post-operative patients (co-consumption), provision of opportunities for patients to maintain hernia health on an ongoing basis (co-maintenance), and strong advocacy and word of mouth from satisfied customers (co-promotion).

Discussion

We now consider two further issues. First, as our analysis of Shouldice's activities highlights so many positive aspects, we consider any problematic aspects of its business model. Second, we discuss the extent to which value proposition deconstruction might be applicable to other organisations. We consider issues relating to the generalizability of this research and then address our second research question, which concerns how the process of deconstruction might be applied to other organisations. Here we adopt a normative stance in proposing that enterprises seeking to improve their competitive offering should consider enhancement of their value proposition or development of a new value proposition through deconstruction. We then provide an illustration of how a company in a different sector has changed its value proposition and improved its competitive position by using this approach.

Some qualifications

Our analysis has presented Shouldice Hospital in a very positive light. This is not surprising, given the experience gained from over 330,000 hernia operations, a success rate of 99.5 per cent and a 98 per cent "extremely satisfied" patient rating. These results set Shouldice apart from other hospitals. However, the positive aspects should be qualified by a consideration of any disadvantages, problems or issues from the perspective of the patient, the medical staff and the hospital.

From the hernia patients' perspective there are some potential disadvantages. First, there are a number of existing preconditions, such as being significantly overweight or having a history of heart problems, which result in Shouldice being unwilling to operate. Second, Shouldice restricts the type of hernia operations it will undertake on patients. The hospital specializes exclusively in external abdominal wall hernias such as inguinal hernias, femoral hernias, incisional hernias and umbilical hernias. However, there are various types of hernias that this hospital does not repair including hiatus hernia, parastomal hernia and lumbar hernia. Third, after qualifying for admission patients can experience a delay of up to several months before they are operated on, due to a substantial waiting list. Fourth, patients cannot choose the specific surgeon who will operate on them. Fifth, the hospital requires a stay of three days post-operative, compared with outpatient surgery available in other hospitals

where the patient returns home the same day. Finally, laparoscopic repair is less invasive and post-operative discomfort is typically less than with Shouldice's pure tissue repair. However, this needs to be balanced against a recurrence rate of around 10 per cent or more, the need for a general anaesthetic, and much greater risk of complications associated with laparoscopy some of which can lead to death.

From the Shouldice surgeon's perspective, their professional work is limited to hernia repairs of a particular type, with a resulting loss of skills in other surgical procedures. Also, they gain little experience in operating on patients under general anaesthetic. Surgeons are also likely to have reduced job mobility resulting in the elimination of the emergency and weekend duty undertaken in other hospitals. Further, it is possible that surgeons continuously repeating the same operation could get complacent. However, former Chief Surgeon Dr Obney stated "I am never bored. Every case is different. There is enough variety to keep you on your toes all the time". From the perspective of surgeons more generally, the Lichenstein method is easier for surgeons to learn, while the Shouldice method is most difficult to learn, if the extremely low recurrence rates achieved at Shouldice Hospital are to be realised.

From the Shouldice Hospital's perspective, their repair method is more complex and time-consuming than other methods of hernia repair. As a result it needs much greater expertise and resultant training and practice. The complex Shouldice method must be performed in high volumes by a surgeon to ensure consistently superior results. A problem the hospital faces is dealing with a large waiting list. Due to government restrictions, it has been unable to expand and add further capacity, which is reflected in a long waiting list, delays in patients being admitted and with some patients seeking treatment elsewhere. A further problem is the abuse of the Shouldice method by other medical facilities that are not as experienced and fully conversant in the application of this technique. A higher failure rate in some other facilities has resulted in some negative commentary for the Shouldice method, as other facilities do not have the sufficient experience to achieve Shouldice's superior success rates.

Generalizability

There is considerable discussion in the literature on qualitative research regarding generalisation, especially in the context of single-case studies. Lincoln and Guba (1985) discuss generalizability in terms of "transferability" and Schofield (2000) argues that a consensus is emerging among qualitative researchers, that generalizability is best thought of as the "fit" between the situation studied and other situations where it may be relevant. We consider the potential "transferability" or "fit" between the Shouldice case study and other organisations on three levels.

First, there are specific differentiators and cost drivers (e.g. use of a local, rather than a general, anesthetic) that are highly context-specific and which may be relevant only to Shouldice or to a relatively small number of hospitals. We concur with Christensen (1997) that there is considerable potential to apply context-specific process-based elements, such as those adopted by Shouldice Hospital, to other hospitals and specialized medical clinics.

Second, we consider a number of relatively generic differentiators and cost drivers that are more broadly applicable. These include: focusing on "good" customers; eliminating what is not of value and increasing emphasis on those elements that are of great value to the customer; process optimisation; engaging customers more actively in

co-creative activities; change the norms of industry practice, possibly through "disruptive" processes or technologies (Christensen, 1997); applying selectivity in the recruitment process for all staff; and achieving exceptionally high levels of customer satisfaction that lead to customer advocacy and greatly reduced marketing costs. These and other more common cost drivers and differentiators have great potential applicability to other enterprises.

Finally, we consider the broader issue regarding the applicability of the business system deconstruction process itself. The deconstruction of Shouldice's value proposition clearly illustrates the logic of addressing the activities in the business system from a customer perspective. The business system framework and the concepts of differentiators and cost drivers provide a theoretical framework that has applicability to a broad spectrum of organisations wishing to adopt or enhance customer-focused value propositions.

Application of value proposition deconstruction

Many academic frameworks do not illustrate how executives might use them. We recommend that enterprises place a greater emphasis on their value creation process by examining their existing value propositions, considering how they might be deconstructed and determining how they might be reconfigured to create additional value. Payne and Frow (2005) argue that such a focus on the value creation process is crucial, as it translates business and customer strategies into a value proposition by identifying what value is to be delivered to customers, what value is to be received by the organisation, and the potential for co-creation.

In discussing how one organisation has used this deconstruction concept, our aim is not to duplicate the detailed case analysis shown previously, but rather to provide an illustration of how an enterprise has successfully used the principles of value proposition deconstruction to develop a new and more profitable value proposition in a vastly different sector. We provide an overview of the problem faced by this organisation, explain how it undertook value proposition deconstruction and discuss how it improved its offering. More specific details of its approach to identifying new differentiators and cost drivers are provided in the Appendix.

United Insurance Brokers (UIB) is the disguised name of a global corporate insurance broker. UIB had a specific problem with the low profitability of its "small company" market segment, which comprised firms with a turnover of up to $10 million. A new value proposition aimed at increasing profitability was required for this market segment. The researchers worked closely with UIB on this project, using the value proposition deconstruction approach to analyse the existing business system and develop a new value proposition comprising many new value-adding differentiators and cost drivers. 'Project Advance' was launched with the purpose of developing this new value proposition. Using the business system approach described previously, the project team commenced by identifying UIB's key business system activities and analyzing operations within them. The following key business system activities were identified: pre-sale prospecting; scoping client potential; risk assessment; negotiations with underwriters; development of client proposals; negotiation and sales; account servicing; dealing with claims; and marketing.

Following an analysis of UIB's business system and its interactions with both clients and insurance underwriters, the project team concluded that massive

inefficiencies resulted from multiple handling by different parties, resulting in high costs. This conclusion led UIB to seek identification of value proposition innovations that would substantially reduce costs and improve differentiation by developing new cost drivers and differentiators. As a result of this work, following the structure proposed by Lanning and Michaels (1988), a new value proposition was developed: "Advance: a high quality, lower cost standardised insurance policy, without lots of exclusions, for firms with a turnover up to $10 million in low-risk industries with good management practices who wish to benefit from high quality service, competitive fees and rapid claims settlement."

As outlined in the Appendix, the deconstruction process utilized for the Shouldice case study formed the basis for identifying new differentiators and cost drivers for UIB. The implementation of this new value proposition resulted in a lower product cost and an improvement in the profitability of this market segment for UIB, rectifying the previous unsatisfactory level of financial return. A branding campaign for the Advance product was developed. A new marketing program generated increased market awareness. Increased profitability came as a result of both improved product profitability and increased market share.

This example demonstrates the applicability of the principles of value proposition deconstruction – which were developed with a direct-to-consumer enterprise (Shouldice) in mind – to an intermediated business-to-business firm (UIB). UIB was also able to successfully adopt many of the specific types of value-adding activities identified in the Shouldice case study and apply them to its own organisation. We suggest that this approach has potential for developing innovative ways of significantly reducing costs and creating strong differentiation for organisations in other industries and sectors.

Generalizability and application: summary comments

Some caution needs to be applied in considering the generalizability of Shouldice's value proposition. The case study used in this research is a specialised hospital treating only one condition, which is very different from a full-service hospital providing a much broader range of services or is less selective with the kind of patients they treat. We consider the highly specific forms of differentiators we identify in Shouldice are most applicable to value propositions for other specialty hospitals.

There are many opportunities to create a superior value proposition through specialized operations in a "focused factory" such as in hip and knee replacement, varicose veins, coronary bypass and angioplasty surgery, cataracts and radial keratotomy eye surgery. A further opportunity lies in creating highly focused value propositions in specialized "hospitals-within-a-hospital", an approach advocated by Christensen *et al.* (2008, p. 3.). There also appears to be a substantial opportunity to improve value propositions within the general area of health care given Porter and Teisberg's (2004) highly critical assessment of performance in the health care sector.

With respect to the application of the deconstruction method for value proposition development more generally, we propose the business system framework provides a theoretical framework with applicability to a much broader range of organisations wishing to develop superior value propositions. In this current paper we provide an illustrative example of how one enterprise, an insurance broking company, has successfully used the principles of value proposition deconstruction to develop a new

and superior value proposition. This enterprise is very different to operating in specialized business-to-consumer health care. UIB operates in the business-to-business area, is in the financial services market and it operates within an intermediated market. However, as we discuss in the section on limitations and future research, exploration of the applicability of this approach needs further scholarly examination. Nevertheless we have been encouraged by an in-depth exploration of the concept of value proposition deconstruction with a group of mid-career executives attending a six-week advanced marketing strategy course. Over this period these executives considered value proposition deconstruction in their industries and produced short reports suggesting the applicability of the approach in sectors that included manufacturing, professional services, a food retailing chain, insurance underwriting, corporate and retail banking, and a not-for-profit volunteer organisation.

Contribution, implications and future research

Research contribution

Considerable work has been undertaken within the field of research on value. For example, scholars such as Ulaga and Eggert (2006) explore dimensions that drive value creation in manufacturer-supplier relationships including service, personal relationships, supplier know-how and saving customer's time. O'Cass and Ngo (2011) identify four sets of value related to differentiators (performance value, relationship value and co-creation value) and cost drivers (pricing value). These studies, and others, provide valuable guidance on the importance of the components of value in different contexts. However, these studies do not focus specifically on the value proposition construct, address the enterprise level or seek to deconstruct broader dimensions of value into specific components.

This current study differs from previous studies in that it focuses on deconstruction at the enterprise level in order to identify the specific differentiators (including ones that relate to performance, relationships and co-creation) and the cost drivers that constitute a superior value proposition. As such, our work responds to calls for research into the identification and development of value propositions by the Marketing Science Institute (2010). Our current research addresses this priority and makes several important contributions to the extant value proposition and business system literature.

First, we develop a new structured process for the identification, analysis and deconstruction of the value proposition utilizing the theoretical framework of the "business system". To the best of our knowledge the process of deconstruction used in this study represents the first use of differentiator and cost driver analysis to explore the key elements of a value proposition from a customer perspective. Use of the business system framework for value proposition deconstruction permits more rigorous, granular and transparent identification of the constituents of customer value. Out approach is importantly, if subtly, different to conventional value chain analysis. While prior research considers differentiators and cost drivers within value chains, this work is highly internally-focused (e.g. Porter, 1985, 1991) and does not sufficiently consider the customer-oriented perspective needed for the identification and/or development of value propositions. Our use of multiple sources of insights from customers helps provide this perspective. Conventional value chain analysis also ignores co-creation and customer relationship sources of value.

Second, we extend the business system concept in three ways. We emphasise the interactive and recursive nature of a co-creative business system. We incorporate learning processes contributing to a superior value proposition, which involve both supplier and customers, into the business system concept, Additionally, in the framework we develop, we explicitly include the value-in-use (Vargo and Lusch, 2004, 2008) that results from communication encounters, service encounters and usage encounters (Payne *et al.*, 2008).

Third, we demonstrate how a firm can use the framework that we have developed to totally reconstitute its value proposition in order to improve its competitive position, a research priority identified by Ostrom *et al.* (2010). Drawing on the principles of "interactive research" with managers (Gummesson, 2001b, 2002), we provide an example of how one firm, UIB, utilized the concept of value proposition deconstruction to develop an innovative superior value proposition for its organisation. We contend that the learning from the value proposition deconstruction in the Shouldice case study can be applied to organisations in other sectors thus providing a structured method for creating superior value propositions.

Fourth, we identify differentiators, in the context of a health care service provider, confirming the importance of factors that include personal relationships, service, supplier know-how, saving customer's time and the importance of co-creation. This analysis confirms factors proposed in earlier work by Ulaga and Eggert (2006) and O'Cass and Ngo (2011). The topic of co-creation does not appear to have been previously considered in the context of value proposition development. Co-creation is especially relevant in value proposition development in industries such as health care where there is a high degree of psychological and physical involvement (Ferguson *et al.*, 2010).

Managerial and policy implications

Shouldice Hospital has created a "resonating focus" type of value proposition, the kind strongly advocated by Anderson *et al.* (2006). It also encompasses the potential value proposition forms identified by Rintamaki *et al.* (2007). Shouldice clearly has an outstanding value proposition when considered in terms of customer satisfaction, word-of-mouth endorsement, quality and cost competitiveness. Shouldice's customer satisfaction is extremely high and customers are strong advocates (Ferguson *et al.*, 2007; Chilingerian and Savage, 2005). There is almost nil recurrence of hernias with Shouldice patients (Gummesson, 2009), whereas in general hospitals this figure is much higher (Hay *et al.*, 1995). Finally, the cost of performing a hernia operation is much lower: at Shouldice a hernia repair is about $2,300, while in a US general hospital it is around $7,000.

The success of Shouldice's outstanding value proposition has managerial and policy implications for both hernia repair and health care more generally. Hernia repair is the most common operation in general surgery. In the US alone, some 700,000 patients seek hernia treatment annually and nearly 800,000 patients seek to avoid hernia surgery, often claiming disability because of the presence of a hernia, representing a health care cost of over US$3 billion (Stylopoulos *et al.*, 2003). Further, there is a substantial cost to the US economy incurred by the 15 million working days lost annually because of hernias (Memon and Fitzgibbons, 1998). Developing improved value propositions that result in better health outcomes is thus a priority. A further implication for the healthcare sector is that the more surgeons gain experience in

treating patients with a particular condition, the more likely they are to create better outcomes (differentiation) and realize lower costs (cost drivers). Research also suggests that parameters such as estimated mortality rates vary greatly between hospitals performing high and low volumes of a particular operation (Birkmeyer, 2000). Applying the learning from specialized focused exemplars such as Shouldice Hospital to other hospitals and medical centres presents a substantial opportunity for the healthcare sector to improve costs and overall efficiencies.

Although there are significant benefits of adopting a similar approach to Shouldice in offering a value proposition with "resonating focused", there are limitations in this approach that may have significant managerial implications. Reliance on a single product or service can prove dangerous in terms of resulting lack of opportunities to cross-sell and up-sell. Such a strategy also provides limited competitive options in a contested market space. A decision to compete using this focused strategy requires managers to closely monitor the market and remain agile in response to competitive threats and new innovations.

The managerial contributions of this study are not limited to the health care industry; managers in all industry sectors have much to gain by considering how their value propositions might be deconstructed and reconfigured into ones of greater competitive superiority. We contend that the method of value proposition deconstruction developed in this paper can provide firms with greater insight than more general case studies of exemplar companies. As one executive we explored this research with commented: "It permits a shift from 'it's really interesting what they have done' to 'this is how they did it'. This has provided me with much great insight into how we might develop an improved value proposition for my own company". By closely examining the value proposition of best-in-class enterprises such as Shouldice, firms in different industries and sectors can gain insight into how they can create a new value proposition of their own, as demonstrated by our business-to-business example of UIB.

Limitations and future research

Research into value propositions is at an early stage of development, hence the discovery-oriented approach adopted in this study. While this topic has considerable general research potential, there are also limitations relating to the present study which should to be addressed in future research.

First, more general research into the value proposition concept is required. There is a need for a definitive review of the value proposition concept and its adoption in industry, and for the development of a conceptual framework that integrates different perspectives, contributions and insights from the value and strategy literatures.

Second, this study has focused on an in-depth value proposition deconstruction for only one best-in-class exemplar. We have considered broader applicability though the illustration of UIB. However, more detailed case study research is needed to consider generalizability. Future research could extend this current work to exemplar organisations in other industry sectors. Such work might also be undertaken in the not-for-profit sector.

Third, although many authors agree on the link between superior a value proposition and improved firm performance (e.g. O'Cass and Ngo, 2011), empirical work is called for in this important area.

Fourth, the role of co-creation in developing improved value propositions requires further investigation. Prahalad and Ramaswamy (2004) highlight the co-creation opportunities resulting from the transformation of customers from "passive audiences" to "active players". The obvious benefits of co-creation in enhancing Shouldice's value proposition and the recent heightened interest in co-creation in the literature suggest that this topic is a promising area of future research.

Finally, understanding the economics of improved value propositions presents an area for future work. At present relatively few organisations develop formal value propositions, and we have found no reference to studies that measure the costs and benefits of value proposition innovation. Research that assesses and quantifies the positive financial impact of business models based on new value propositions may act as a catalyst for more enterprises to pursue value proposition development and enhancement.

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Appendix 1

Summary of differentiators

Design and configuration of facilities

The facilities resemble a country club more than a hospital, with the operating theatres hidden away in the basement. Shouldice has made investments in assets that are important to patient comfort and recovery, including carpeting, and communal areas where patients can meet and engage in social interaction and group activities such as a billiard room, a shuffleboard table, a TV lounge, a common area to play cards and a solarium for lounging and reading. There are 20 acres of landscaped grounds to walk about in and a golf putting green. The facilities are designed to generate a club-like atmosphere which encourages patients to be mobile following surgery. They are treated as guests rather than patients. The bedrooms are fairly Spartan, encouraging patients to get out of bed and get involved in these group activities, as medical research suggests that early ambulation speeds up recovery. The facilities have low-rise stairs that encourage mobility.

Diagnosis – pre-arrival and pre-operation

A thorough diagnosis is made before admission. Shouldice seeks to cater to a very specific target market. Before patients come to Shouldice, they receive a full briefing either from the referring doctor or through written and online materials. They realize they are part of a community of otherwise healthy people who have come to the conclusion that "Shouldice is for me". They understand the low risk involved in having the operation performed at Shouldice. Patients receive a communication assuring them of the substantially higher success rate and lack of complications from Shouldice's procedures. The branding of the procedure, "the Shouldice method", creates a powerful differentiator when compared to a procedure carried out in a general

hospital. Before the operation is performed, patients are well aware of the overall cost savings of having their operation performed at Shouldice.

Admission and pre-operation

Following admission, the patient is checked into a semi-private room, which is shared with one other person. Later, a new-patient orientation is led by a nurse. This briefing highlights the difference between a hernia repair at Shouldice and one at another hospital. It explains the procedure in detail and sets expectations – "you will survive – everybody does". The briefing represents the start of a "sharing" culture and aims to relieve the patient of fear and anxiety. The briefing places considerable emphasis on reassurance and managing the mental state of patients who naturally are apprehensive about their forthcoming operation. Considerable attention is given to educating the patients on what to expect at every stage of their experience with Shouldice.

Operation

The operation utilizes an innovative technique – the Shouldice method – which is a proven technique with high-order reliability. It is performed by very skilled surgeons, in most cases using a local rather than a general anesthetic. Patients are awake and aware of what is going on throughout the surgical procedure. Each surgeon is intensively trained and benefits from a vast amount of accumulated experience. The surgeons are experts in this procedure. For example, one former surgeon, Dr Obney, performed over 30,000 hernia operations during his career at Shouldice. The short time in the operating theatre, typically about 45 minutes, is also a differentiator. There is a very high level of quality control and low risk associated with the operation.

Recovery

There are notable differentiators during the patient recovery process that vary from the experience offered at a general hospital. There is a fast recovery time and a high expectation that no recurrence is ever likely to occur. Patients experience a fun atmosphere with exercise classes and various group activities such as golf putting and pool or billiards. The length of stay, three to four days, also represents a differentiator – Shouldice has found that this period of time is optimal for promoting faster recovery. After this, patients return to their homes with low risk of problems or complications. Most importantly, the hospital staff encourages continual engagement with other patients, eliciting a form of group therapy. These group dynamics represent a form of "self-healing".

Post-operative service

A key differentiator for post-operative service is the low recurrence rate for hernia repairs undertaken at Shouldice. All former patients become members of an alumni club. They receive a regular newsletter from the hospital. Over 130,000 follow-up letters are sent to previous patients. This annual questionnaire is sent to every patient for as long as they are reachable by the hospital. This is supplemented by five travelling clinics that are conducted each year within North America. Shouldice performs some 12,000 patient follow-up examinations each year, with free examinations being undertaken for international patients. Beginning in 1947 and continuing for over 50 years, an annual Shouldice patient alumni reunion dinner was held in Toronto, with up to 1,500 former patients attending, More recently the annual reunion has been discontinued due to cost and resource considerations. However, patients are encouraging the return of the reunion. Collectively, these activities represent a continuing relationship with former patients and build considerable "esprit de corps" amongst an "alumni club".

Marketing
A key differentiator is the hospital's long track record. The Shouldice Hospital has been successfully operating continuously since 1945. A history of 65 years of operations and successful surgeries on more than 340,000 patients instills prospective patients with a sense of confidence in a successful outcome. Strong customer advocacy and word of mouth are generated by former patients and their families and friends. The branding of the surgical technique, "the Shouldice method", again acts as a differentiator, as does the overall cost/benefit, including the message "no-one dies", There is almost no likelihood of problems following the operation or recurrence of the condition. Pro bono operations are performed on ordained members of the clergy of all denominations. The former patient reunions and annual contact and follow-up with 130,000 patients create strong alumni bonds. Extensive exposure in the media, including both print and TV, and in business school case studies, as well as a reputation of being the best hospital in the world (Heskett *et al.*, 2003) act as further, powerful differentiators.

Appendix 2
Summary of cost drivers

Design and configuration of facilities
The facilities of Shouldice Hospital have been configured with maintaining low costs in mind. The hospital is in a suburban location rather than an expensive city centre. The estate was purchased in 1954, so the facilities represent a low investment when compared to today's building costs and property prices. Because the hospital performs only one type of operation, it is able to provide dedicated facilities. All bedrooms are double occupancy. They have a high utilization rate made possible by a waiting list of over 1,500 patients. The bedrooms have low capital investment with no telephone or television, and minimal medical equipment. Meals are served to patients in the dining room, rather than being delivered to patients' rooms.

Diagnosis – pre-arrival and pre-operation
Shouldice Hospital draws on a wide catchment area for its customers. While local patients typically visit Shouldice Hospital for a diagnosis, over 40 percent of patients are not local, with many coming from the US. Self-diagnosis is available to out-of-town patients using the hospital's Medical Information Questionnaire, which is available online. A substantial number of potential patients make this initial diagnosis themselves. From this questionnaire, information is collected regarding weight, abnormal reactions to anesthetics, heart attacks, abnormal blood pressure, asthma, emphysema, tuberculosis, kidney illness, diabetes, etc. These conditions are used to screen out unhealthy patients who are not suitable for admission. Overweight patients are required to achieve an acceptable weight before Shouldice will operate on them.

Admission and pre-operation
The admission and activities prior to the operation are designed to bear a low cost when compared with those of a general hospital. Instead of each patient being briefed by a surgeon on a one-on-one basis, a group briefing is undertaken with all daily admissions, usually about 30 patients, and is carried out by a nurse. The briefing explains how meals are taken in a communal dining room, with no meals served in bedrooms (except for the first meal following surgery). This dining arrangement yields considerable savings, as there is minimal need for trolleys and orderlies to take meals to rooms and collect them afterwards. Patients are teamed up with a roommate who has already had the operation and who can share the experience of their operation, thus reducing time-consuming questions directed at staff.

Operation
Shouldice Hospital maintains low costs by repeatedly performing one type of surgical operation without significant variation. Shouldice benefits from a massive experience curve effect when

compared with a general hospital. The scale advantage comes from the huge volume, with over 340,000 operations having been undertaken. By focusing on one type of operation and using a standardized procedure, Shouldice achieves a high throughput of patients with almost no costly errors or rework being required. A "surgeons assisting surgeons" program ensures that each surgeon reviews, teaches and learns from each of the other surgeons on staff by requiring each surgeon to take the role of a surgical assistant for at least a week every year. This promotes discussion and peer review in improving the "Shouldice technique". Relatively low medical technology is used, and thus a limited amount of equipment is required, Likewise, a local anesthetic is administered to most patients, so specialized anesthetists are not required. The surgical packs used also represent substantial cost savings. A general surgical pack used in a general hospital will cost between $250 and $800, whereas Shouldice's disposable pack costs less than $20 per operation. This represents a potential saving of over $2 million per annum. And because they perform just one operation at Shouldice, training of doctors and nursing staff is more focused and less expensive than at other hospitals.

Recovery

The recovery process focuses on encouraging patients to manage their own recovery and engage in the group activities discussed above. The group exercise classes typically involve more than 60 patients at a time and are conducted by a relatively low-cost nurse. Patients interact extensively with each other and discuss their condition and recovery. This form of group therapy, where patients compare their condition with each other, engages the patients and makes contact with the doctors less necessary. Meals are not served in bedrooms before the operation, and are generally not served in bedrooms during recovery. As the operation involves the use of a local anesthetic, fewer post-operative recovery rooms are needed than at a hospital where patients recovering from a general anesthetic would need to be closely monitored.

Post-operative service

The low recurrence of problems also acts as a cost driver, as less time is taken up by patients contacting medical and administrative staff after the operation. Patients form a customer community and use electronic resources to interact with each other (e.g. ehealthforum.com). The Shouldice post-operative follow-up program is considered the world's largest and longest running medical follow-up program. The large amount of patient follow-up and questionnaire data helps identify any medical issues that can be addressed at an early stage. The collection of follow-up data also helps in measuring the quality of the work longitudinally and facilitates publishing of research, thereby building support amongst the medical community worldwide. The follow-up program also helps maintain patient confidence and high levels of post-operative satisfaction. Some 98 percent are extremely satisfied with the care at Shouldice and 2 percent merely satisfied. 100 percent of patients say they would recommend Shouldice (Chilingerian and Savage, 2005).

Marketing

The very high level of referrals means no sales force is needed and marketing staff is minimal. Shouldice benefits from a large amount of free publicity, including press and TV coverage. Many patients come to Shouldice through personal recommendations. The clergy has also acted as a referral source as a result of pro bono operations for them. The use of case studies at universities has further contributed to marketing activities at a low cost. Regular check-ups also keep Shouldice at the fronts of patient's minds. Lastly, the reputation of the hospital is so strong a large number of patients are acquired from outside Canada, without incurring high marketing expenditures. Only 50 percent of the patients at Shouldice are from Canada, with 42 percent coming from the US and 2 percent from elsewhere (Urquhart and O'Dell, 2004).

Appendix 3

United Insurance Brokers: application of value proposition deconstruction

UIB's new value proposition involved the development of a branded standardized product incorporating newly developed and enhanced differentiators and cost drivers. The most important new cost drivers and differentiators that were developed as part of this new value proposition are reviewed here.

Previously, UIB sold to clients in all industry sectors. Each insurance policy sold to an individual firm client was highly tailored to its specific requirements. However, some sectors, e.g., woodworking businesses, were subject to high claims and potential losses. Also, certain companies within a given sector might make high claims, with potential resulting losses for both underwriter and broker. As a consequence, client insurance premiums were becoming increasingly expensive to take into account such potential losses. Furthermore, considerable costs were incurred in assessing risk and in the high degree of tailoring of policies, often with many exclusion clauses, for particular clients.

Typically all such client policies were highly specific and customized. The new "Advance" product started with the recognition that its insurance policies should only be sold to "good clients". UIB's new product was only made available to industry sectors with inherent good profitability. Moreover, it developed a system for profiling individual companies within attractive industry sectors using commercially available financial data that enabled UIB to predict, with reasonable accuracy, the likelihood of certain companies being unprofitable. These companies were not sold to. This focus on "good clients" (see Shouldice Hospital) substantially increased the potential profitability of this market segment.

The new standardized product involved the removal of many of the special clauses and exclusions inherent in a bespoke policy for an individual company and their replacement with broad clauses relevant to a wide section of this target segment. Introduction of this standardized product provided enhanced benefits for clients by giving them increased insurance coverage, but as a result incurred higher expected costs due to the greater number of potential insurance claims on the policy. However, these higher claim costs could be readily absorbed because of the substantially higher inherent profitability of focusing on good clients. Development of a standardized product also resulted in a dramatic reduction in costs when compared with offering highly customized policies. As a result, the long and costly process of discussions and negotiations involving client, insurance broker and insurance underwriters was greatly reduced.

The standardized product also led to further reduced costs. Previously, high costs had been incurred through dealing with multiple insurance underwriters. UIB typically approached many insurance underwriters in order to get alternative quotes on the client's insurance risk. Instead, UIB approached six insurance underwriters with its concept and explained the substantial cost inefficiencies inherent in the existing business model, as evidenced by the business system analysis and a service blueprinting exercise. They pointed out the repetition and costly inefficiencies in many parts of the blueprint. UIB argued that, if its costs were to be dramatically reduced, it was essential that whichever party (broker or underwriter) had the lowest costs in performing a task should undertake that task and be financially rewarded for it, regardless of who was currently carrying out that task. Four of these underwriters could make the necessary adjustments in their operational systems to accommodate such substantial changes in their procedures and formed a new strategic alliance with UIB.

Further innovations in the value proposition followed. For example, UIB account executives calling on a client would typically need to arrange collection of additional information in order to assess the client's risk profile. Visits to clients' premises and factories by UIB's specialized risk assessors were often necessary, and such visits were costly, as a risk assessor could only call on a relatively small number of potential clients each day. Instead, account executives were provided with risk-assessment training and were equipped with cameras and data capture tools to enable them to record much of the details required by a risk assessor. The risk assessor could then

usually assess the risk from the office, without the need to visit the client's premises. This enabled the risk assessor to complete many more assessments in a given day.

The new value proposition involved offering customers in this market a new and highly differentiated product, called "Advance". The product was standardized and offered wider risk coverage than would previously have been offered to a client. It could be more easily understood and the time from initial contact with the client to agreement on and sale of the final policy was substantially reduced. Protracted discussions and negotiations were no longer necessary. Because of the cost savings derived from the initiatives outlined above, the Advance product could be offered at a reduced cost to clients, but at a higher level of profitability for UIB.

About the authors

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