Value proposition as a catalyst for a customer focused innovation

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Abstract

Purpose – This paper seeks to advance the theory on value proposition and innovation by offering a framework for identifying value proposition elements.

Design/methodology/approach – A single embedded case study is conducted based on Amazon.com's innovations.

Findings – By identifying and systematically analysing innovations by Amazon.com, the concept of value proposition was decomposed into five components: performance, ease of use, reliability, flexibility and affectivity (PERFA).

Research limitations/implications – The research did not focus on the relationships between the value proposition elements and their relevance in different contexts such as product, industry or customer life cycle.

Practical implications – Managers should support their decision to innovate the value proposition based on customers' perceived value. The findings provide guidance to managers on how to uncover innovative value propositions and potentially create new demand in an uncontested market space.

Originality/value – The paper is an original attempt to correlate value proposition and innovation. It provides researchers and practitioners with a better understanding of the structure of a value proposition and how innovation can influence it.

Keywords Value proposition, Innovation, Tool, Customer perceived value, Case studies, Internet, Marketing strategy

Paper type Case study

Introduction

Drucker (1999) claims that a serious cost disadvantage may destroy a business and that business success is based on the creation of value and wealth. The common definition of value relies on the price-quality ratio of a product or the difference between perceived benefits and perceived costs. It is a description of a customer's problem, the solution to it and value from the customer's perspective (Chesbrough and Rosenbloom, 2002). A value proposition describes how a company's offer differs from those of its competitors and explains why customers buy from the company.

Perceived value comprises two complementary concepts, i.e. perceived benefit and perceived costs. Perceived benefit is frequently equated with the characteristics and functionalities of products and their quality (Afuah and Tucci, 2000; Kambil *et al.*, 1996). As the literature suggests, a company can differentiate its products in various ways (Afuah and Tucci, 2000; Caruana *et al.*, 2000; Kambil *et al.*, 1996; Trkman, 2010): product features, design, timing, location, service and support, product mix, linkage between functions, linkage with other companies, reputation and a combination of these. But customers do not buy a product's characteristics; rather, they buy the

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benefits a product provides. During the decision-making process they compare the characteristics of a product with those of competing products. This literature mainly deals with characteristics from an objective quality standpoint (e.g. the company's viewpoint). As it is buyers who ultimately decide on the purchase, the shift to their viewpoint is crucial. During their decision-making, customers ultimately take decisions based on the benefits a product offers, not its characteristics or features *per se*.

At the same time, the business literature offers many empirical examples but lacks universal models enabling a systematic approach to innovation. Kim and Mauborgne (2005) offer a strategy canvas – a tool for value proposition innovation. Yet the business literature does not systematically decompose value as a concept and this therefore hinders the formulation of an innovative value proposition.

During a value proposition assessment customers also evaluate the perceived costs. These are a combination of nominal prices and other costs related to product acquisition, use and disposal (Slater and Narver, 2000; Weiss *et al.*, 2003; Zeithaml, 1988). In addition to direct financial costs, customers consider additional costs, e.g. time, risk, search, psychic and effort (Gronau, 1973; Kambil *et al.*, 1996; Leibowitz, 1974; Leuthold, 1981; Mabry, 1970; Murphy and Enis, 1986). Both perceived benefits and perceived costs form the value customers perceive; hence, the higher the perceived benefits and lower the perceived costs, the higher the value perceived by the customer.

As innovation per se does not have a direct link with enhanced benefits (Anderson *et al.*, 2006) and products with higher quality and more features do not necessarily create a higher value proposition (Bower and Christensen, 1995; Christensen and Overdorf, 2000), the question is what to innovate in order to offer customers an enhanced value proposition? Through an embedded case study based on Amazon.com, we created a framework that helps companies identify the key factors that can give their prospective customers enhanced value proposition.

Perspectives on value proposition

> Customer value proposition has become one of the most widely used terms in business markets in recent years (Carter and Ejara, 2008, p. 69).

Value is created when product attributes, e.g. design, service or support, match specific customer needs (Kambil *et al.*, 1996). Congruently, the marketing literature often uses value proposition and closely connects it with the values a company delivers to customers in order to satisfy their needs (Anderson *et al.*, 2006). A value proposition is about the customer but for the company's internal use and it must also define exactly what the organisation intends to provide to the customer's life (Lanning, 2000). It defines the way organisations work by focusing their activities on best serving their customers while doing so profitably (Barnes *et al.*, 2009). It describes a customer's problem, the solution to it and value from the customer's perspective (Chesbrough and Rosenbloom, 2002).

Interestingly, research by Anderson *et al.* (2006, p. 2) reveals that "it is exceptionally difficult to find examples of value proposition that resonate with customers". Companies usually think of value proposition in terms of what they offer their customers rather than what their customers truly value (Bower and Christensen, 1995; Christensen and Overdorf, 2000). In fact, most managers in Europe and the USA equate their list of benefits to their value proposition without much concern about customers

and competitors (Anderson *et al.*, 2006). This simplicity engenders a major drawback: Managers may consider advantages that offer the customer no real benefit or are common in the industry and therefore provide no differentiation factor (Anderson *et al.*, 2006; Kim and Mauborgne, 1999; Popovič *et al.*, 2009).

The reality is that customers do have options and companies have to differentiate their offerings from the next best alternative which involves a careful look at both the competition and what their target clients truly value. Value proposition should ultimately aim to provide focused and distinct benefits that help solve target customers' problems by being distinctive (i.e. superior to those of its competitors), measurable (i.e. based on tangible points of difference) and sustainable (i.e. valid for a certain time period) (Anderson *et al.*, 2006). Therefore, a value proposition is not about a company's features or offerings but about the customer's experience in terms of their needs and wants (Barnes *et al.*, 2009).

Customers assess a certain company's value proposition based on the following formula: Value = Benefits minus Costs. Value proposition comprises capability and impact (both benefiting customers) as well as costs (viewed as a trade-off). Capability means what a company can do for a customer. Impact is how a company will help the customer succeed and cost refers to what the customer must give in return for the privilege (Barnes *et al.*, 2009). Costs can be represented by nominal prices (Shoham and Fiegenbaum, 2002; Slater and Narver, 2000; Ulaga and Chacour, 2001; Walters and Lancaster, 2000; Zeithaml, 1988) or by non-nominal terms such as risk and effort (Kambil *et al.*, 1996; Murphy and Enis, 1986). It derives from this that value is specific to a particular instance because time, convenience, perceived risks, among others, are factors that vary from company to company and from individual to individual (Barnes *et al.*, 2009). As companies compete in creating value for their customers by increasing benefits and reducing costs, our case study approach takes the value proposition definition of Barnes *et al.* (2009) a step further by decomposing it into five components. Each of these components incorporates both benefits and costs perceived by the different customers of Amazon.com, e.g. end consumers, shopping infrastructure customers and developers. The concepts and tool are built on the premise that customers make the final choice in the decision-making process and therefore the value proposition should be analysed from the customer's standpoint.

Methodology

As the innovation phenomenon is too complex to be analysed properly from a single disciplinary perspective (Baregheh *et al.*, 2009; Kambil *et al.*, 1996), we took a multidisciplinary approach embracing fields such as strategic management, organisational science, information systems marketing and others.

Given the dynamic nature of innovation (Chesbrough and Rosenbloom, 2002; Cooper, 1998), it is appropriate to use a case study approach since one of its key strengths is to trace changes over time (Garvin, 1987). A true understanding of what works and why requires a multiyear, qualitative, interpretative study (Govindarajan and Trimble, 2005). Longitudinal research can also encompass a wide spectrum of innovations. Further, case studies are useful for research into specific innovation and specific categories of innovations (Eisenhardt, 1989).

Although analysis involving multiple case studies generally has greater validity than single case studies, a single case study can lead to a more detailed and precise

analysis (Dyer and Wilkins, 1991). A meticulous understanding requires the study of a small number of cases since every additional case reduces the time resources available (Miller and Salkind, 2002).

Our approach makes it important to carefully choose the case. A random selection is unnecessary and even undesirable (Eisenhardt, 1989). The selected case should be the most informative for the given scientific resources (Hägg and Hedlund, 1979; Patton, 2001, Stake, 1995) and consequently Amazon.com was chosen. The main reasons for our choice are:

- Amazon.com has managed to transform itself from an online bookstore to one of the world's key online shopping destinations. It has entered the market of application solution providers, offers business solutions (warehousing, distribution) and is among the top players in the cloud computing industry. Given its evolution over the years and high level of diversification, Amazon.com offers the opportunity to discover a broad spectrum of innovations.
- Amazon.com also represents the so-called new economy yet at the same time it shares many characteristics with traditional companies. In fact, offline activities represent 70 percent of its core business (Niekerk, 2000). As a result, we could identify innovations which are common in both traditional and new economy companies.
- Stake (1995) suggests we select a case from which the most can be learned. Amazon.com has managed to develop from a start-up to one of the largest companies in the world in slightly more than a decade. This enables an analysis of innovations in the company's different life cycle phases.
- The selected case must enable a comparison with existing literature (Yin, 2003). In the last decade, Amazon.com has been one of the most frequently used examples in business and academic literature and has thus already been analysed from different viewpoints which can help improve the validity of the findings.
- Amazon.com initially had extreme and contradictory predictions regarding its future. Before the internet bubble burst in 2000, Amazon.com was typically featured as a role model for other online companies and its CEO Jeffrey Bezos was even selected as Time's Person of the Year 1999. After the dotcom bust, even the most prominent scholars (e.g. Porter, 2001) attributed it with negative characteristics and predicted a bleak future for the company. Its controversial story makes it an interesting case to study and learn from.

To strengthen the research design we employed an embedded case study design. Although more complex, it permits the induction of richer and more reliable models. In addition, an embedded design helps reduce the shortcomings of a single case study as subunits can often provide possibilities for a deeper analysis, leading to more profound understandings than a holistic approach (Yin, 2003). As a unit of analysis we chose an individual novelty which enabled us to systematically analyse the case in more detail.

Data sources

The data sources are summarised in Table I. The CEO's letters to shareholders, annual reports, blogs, audio and video recordings were included in order to gain insights into

Table I.
Summary table of the data sources

Data type	Data source
Internal data	Amazon's annual reports Letters to shareholders News releases on Amazon's web site
Patents	Filed under Amazon.com Filed under Jeffrey P. Bezos
Scientific and professional literature	*Business Week*, *The Economist*, *Advertising Age*, *The Wall Street Journal*, *The New York Times* and *FastCompany.com*, among others
Academic literature	88 relevant articles published in 71 journals from different scientific fields (e.g. management, informatics, marketing, finance, computer science, law, librarian science, operational research and taxes)

the information the company considered important for its stakeholders. As patents are one of the most relevant forms of protecting innovations, an analysis was conducted in order to identify granted and pending patents. The aim of analysing news releases was to identify changes and innovations the company found important enough to communicate to the general public. The last group of data sources included trusted and objective academic and business periodicals dealing with Amazon.com.

Data analysis

In the data collection phase we sought to identify novelties Amazon.com had introduced to the market or in their internal processes. We did not focus on whether the novelty was really new to the market as the perceived novelty is more relevant than the actual fact of being first in the market. In the first data analysis phase annual reports were studied, followed by letters to shareholders and news releases. Innovations identified in these sources were all recorded in chronological order. Besides identifying the novelties, we sought to understand the big picture of how Amazon.com was evolving and the context surrounding its innovation. For each analysed unit, a date, title and short description was added.

In the second phase, innovations were identified based on their characteristics and the context in which they appeared. For each innovation, the case study database included a description of the novelty, its key characteristics (i.e. why the data source identified this as a novelty), target customers (e.g. end customers, shopping infrastructure customers and/or developers) and the context in which it was introduced. We also aimed to determine which perceived value components each of the innovations could be related to.

To analyse other sources such as patents, a conceptual matrix was used where one dimension represented the identified novelty and the other the evolving perceived value components. The basic principle of this matrix is that it includes several components of a single, coherent variable, although it does not necessarily order the components (Miles and Huberman, 1994).

Validity of the findings

We carefully selected approaches to address the quality of the findings as suggested by the literature (Gray, 2004; Kidder *et al.*, 1986; Remenyi *et al.*, 1998) namely:

- construct validity and internal validity;
- external validity; and
- reliability.

Our research is based on the definition of innovation by Rogers (1995) whereby innovation is an idea, praxis or object that is perceived as new. Further, the level of newness can be perceived in different ways: new to the company, to the market or to the world or even new to the manager of a unit that innovates (Nohria and Gulati, 1996). To include as many innovations as possible, we decided to use a less restrictive definition whereby the concept of newness is checked at the company rather than the market level.

As every method uncovers a different view of empirical reality Denzin (1978) and every researcher is confronted with several indicators of the same phenomena (McKinnon, 1988), triangulation was employed in order to improve the construct validity. It was used in the traditional (Denzin, 1978; Eisenhardt, 1989) and post-modern (Richardson, 1997; Janesick, 2000) senses. In a more traditional sense we used triangulation to address the internal validity where different sources should point in the same direction. In addition, we used it in the post-modern sense to build a complete view on business innovations. We aimed to accomplish this by recording the context in which individual novelties were introduced and reported. In order to ensure that most innovation would be included in our study, news releases and specialised media were also considered and analysed in order to gain even deeper insights into Amazon.com's innovations and to acquire a broader view. To improve the validity of the findings we also conducted triangulation with Amazon.com's buyers. When applicable, evidence and examples of innovations were gathered from all of these groups.

The goal of the research was not to offer a statistical generalisation but an analytical generalisation in order to expand and generalise theories (Bickman and Rog, 1998; Gummesson, 1997; Scapens, 1990; Yin, 2003).

Reliability of the findings

To assure reliability, a case study protocol and a case study database were used (Bourgeois and Eisenhardt, 1988; Lincoln and Guba, 1985). We followed Yin's (2003) advice and paid special attention to the chain of evidence to improve the reliability of the research and allow an external observer to follow the derivation of any evidence, ranging from the initial research questions to the ultimate case study conclusions. The database includes actual evidence and indicates the circumstances in which the evidence was collected. Because of space limitations this information is not shown in this paper but is available on request.

Findings

The data analysis produced an exhaustive list of novelties and general characteristics. For each novelty that emerged from Amazon.com, we pointed out the value propositions offered to the company's different customers.

We soon realised that all individual novelties generated added or diminished value for customers through at least one of five perspectives (PERFA): Performance, Ease of use, Reliability, Flexibility, and Affectivity. We consequently tested our framework against all identified novelties which emerged at Amazon.com from its launch until

2006 in order to validate our concept. Given the extensive list of novelties we identified, in this paper we only include a few examples for each customer group identified.

Amazon.com's customers

Our case study revealed that Amazon.com has three main customer groups who purchase its goods and services: End consumers, shopping infrastructure customers, and developers (Table II). For each customer group, the value proposition is enhanced by offering added benefits and by minimising costs.

Innovative value proposition explained: PERFA

Each novelty introduced by Amazon.com was systematically analysed in order to understand what and how each one of them affected Amazon's customers. After organising our findings in an Excel chart, we recognised an emerging pattern among some of the innovations. For example, it was clear that certain innovations were bringing additional technical performance as well as greater convenience to their customers. Others, like Amazon.com's AuthorCentral, were not so clear and required us to go deeper into the literature. AuthorCentral offers the possibility to create an emotional link connecting the customers and authors of a certain book. Meticulously matching innovations' effects on customers with existing definitions found in the existing literature led to the following five elements that altogether represent a complete overview of all customer value propositions generated by innovations at Amazon.com and summarised in Table III: Performance (P); ease of use (E); reliability (R); flexibility (F); and affectivity (A). All elements (PERFA) are grounded on theoretical definitions which correspond to our findings.

Performance defines the way organisations work by focusing their activities in order to best serve their customers while doing so profitably (Barnes *et al.*, 2009). Perhaps more elucidative and adapted to our case is the definition by Bonner (2010) which states that the performances of innovations or new goods or services offered to customers is a result of a superior company's offering in terms of quality, technical performance, features and ability to meet customer needs and demands. This perspective emphasises innovation as a generator of performance in a customer-oriented way as can be found within Amazon.com. Indeed innovations introduced at Amazon.com, such as allowing third party sellers to offer their products on the web site, provide Amazon's end consumers with one of the widest product choices available online in a single location. As third party sellers compete for business, end consumers are able to select items that best suit their needs and have the most competitive price. Moreover, features such as product reviews provide end

Type of customer	Description
End customers	Individuals, households and business that purchase goods from the web site www.amazon.com
Shopping infrastructure customers	Businesses or individuals who use Amazon.com's platform in order to sell products
Developers	Individuals and corporations who use Amazon.com's infrastructure web services that comprise a cloud computing platform

Table II.
Amazon.com's customer groups

PERFA framework	Definition	Practical example
Performance	The way organisations work with the aim of serving best their customers while doing so profitably (Barnes *et al.*, 2009).	Product diversity through third party sellers Alignment of customers expectations through product reviews Compatible barcode system for libraries Cloud computing services
Ease of use	Degree to which individuals believe using a certain system or product will be effort-free.	Optimised product search engine "One click" purchase Amazon Approval slip User-friendly cloud computing services
Reliability	The ability of a product to deliver according to its specifications (Van Raaij and Pruyn, 1998).	Shipping platform Cloud computing services
Flexibility	Firm's ability to reallocate and reconfigure its organisational resources, processes and strategies as a response to environmental changes (Sánchez and Pérez, 2005)	Sales of audio files in MP3 and CD Amazon's web infrastructure Mechanical Turk
Affectivity	Feelings or emotions associated with working with a company or using its products and services	Kindle AuthorCentral Service Leverage of the Amazon.com's brand

Table III.
The PERFA framework

consumers with independent opinions on the items Amazon.com sells. It aligns consumers' expectations regarding the performance of the product and therefore minimises the possibility of dissatisfaction and returns. Amazon.com also launched innovations that highly benefited public and private libraries. Through the introduction of a bar code on its books that are compatible and available upon request to all its corporate customers, Amazon reduced additional costs for the customer as well as shortened the books' time to shelve lead time.

Further, Amazon.com introduced the possibility of third party developers using its advanced and highly technical performant infrastructure (especially storage and cloud computing) which offers developers the possibility to use a state-of-the-art IT platform at a marginal cost.

Ease of use refers to the degree to which a person believes that using a particular system or product will be effort-free (e.g. the ease of search and acquisition, usability, personalisation, service and support). All else being equal, a feature or application perceived as easier to use than another is more likely to be accepted by users (Wang and Wang, 2009; Davis, 1989). Interestingly, in their meta-analysis of the relationship between the characteristics of an innovation and its adoption Tornatzky and Klein (1982) found that compatibility, relative advantage, and complexity have the most consistent significant relationships across a broad range of innovation types. Complexity is defined as "the degree to which an innovation is perceived as relatively difficult to understand and use" (Rogers and Shoemaker, 1971, p. 154). Therefore, the easier it is to use an innovative application or feature, the more likely it is to be accepted by the user. Consequently, ease of use reduces the cost (effort) included in the value proposition equation and increases its value.

Amazon.com offered its end consumers the possibility of them searching among thousands of books through an optimised keyword system based not only on the title of the book, but also on keywords spread throughout its content. This optimised search tool reduces the consumer's time and energy related to finding a certain item. Another innovation creating an enhanced value proposition for Amazon's end consumer is the "one-click" patent filed in 1999 and featured on its online store. This feature allows customers to make online purchases with a single click and they do not have to re-submit the lengthy and cumbersome payment and shipping information if the user has previously provided it (return customers). Further, Amazon.com launched innovations of great benefit to public and private libraries. By introducing the monthly Amazon approval slip, libraries receive a monthly report on new books that match their selection criteria for purchases of new titles. For example, a business school library might only be interested in new books on the topic of management from a very specific publisher. Consequently, Amazon.com provides a pre-selection of all new releases that match the customised criteria of each library that joins the service. As developers and shopping infrastructure customers are concerned, Amazon allows them to use their highly scalable web services to support their growth needs in a user-friendly manner.

Reliability is defined as "the ability to perform the promised service dependably and accurately" (Pitt *et al.*, 1995, p. 177). Van Raaij and Pruyn (1998) similarly perceive reliability as the ability of a product to deliver according to its specifications. Innovation may therefore add to the value proposition for customers by performing in accordance with the standard set for products and services. Amazon.com has invested considerable efforts in making its shipping platform as optimal as possible. Through both internal optimisation and strong partnerships with shipping companies, the company takes the task of delivering its products within the agreed time frame very seriously. At the moment, Amazon.com provides several shipping modes ranging from its latest innovation, local express delivery (i.e. delivered the same day of the order) to Super Saver Shipping (i.e. delivered within five to eight business days). As the customer decides which options best suits their needs, Amazon.com offers a full money-back guarantee on the shipping cost in case the company fails to deliver within the selected time frame. This statement assures buyers about their purchases and Amazon communicates to its customers its strong commitment to a reliable service every single time. Amazon.com's shopping infrastructure customers can leverage warehousing systems that are tested and proven by Amazon's own logistics systems. Therefore, business customers enjoy the same high level of reliability as Amazon.com itself. Nitschke, the President of Target Direct (Amazon's direct online competitor), revealed that his company uses Amazon.com's infrastructure as Target Direct is not prepared to invest as much in technology as Amazon does (CIO.com, 2003). Developers also reap the benefits of the cloud computing infrastructure. Its reliability is proven on a daily basis as the same infrastructure powers Amazon.com's own shopping portal.

Flexibility is perceived as necessary in order to maintain the fit of an organisation and a changing environment (Regev *et al.*, 2007). It describes a firm's ability to reallocate and reconfigure its organisational resources, processes and strategies as a response to environmental changes (Sánchez and Pérez, 2005). In other words, flexibility is materialised through the dynamic capabilities of a company which enable it to integrate, build and reconfigure internal and external competencies in order to face

rapidly changing environments (Teece *et al.*, 1997). Amazon.com operates in a constantly mutating and competitive online environment where customers are highly demanding given the low search costs (Brynjolfsson and Smith, 2000), large product selection (Brynjolfsson and Smith, 2003) and information about word-of-mouth based on user-generated reviews (Chevalier and Mayzlin, 2006). Flexibility is important in such a competitive environment in order to keep satisfying customers' needs as well as maintaining or increasing customers' value propositions. Several of the company's innovations emerged as a consequence of a change in the environment it operates, i.e. the introduction of the online sale of audio music files (Amazon MP3). The company understood that the market was changing and that their end consumers were no longer interested in purchasing music the traditional way in CD format. By offering this service, Amazon.com enabled its customers to purchase music in two different formats. Similarly, Amazon realised that ever more small and medium online retailers (i.e. shopping infrastructure customers) were emerging in the market, many of them with lower prices than Amazon's. The company responded to this apparent threat by transforming it into an additional source of revenue. Instead of engaging in a competitive retail war, Amazon.com decided to provide such small and medium business with the opportunity to leverage their advanced IT infrastructure at a marginal cost. Simply put, Amazon decided to become a platform where small and medium companies can outsource some of the services they need for their operations. In other words, corporate clients, many of them being Amazon.com's direct competitors, received the possibility to outsource certain areas of their business such as: selling platform; order fulfilment; online payments; advertising; and even self-publishing services. In a similar fashion, developers which create retail platforms for corporate clients (sometimes even retail stores competing with Amazon.com) can also use Amazon.com to accelerate and improve their results. In fact, Amazon.com's Mechanical Turk service allows developers to outsource a high quality workforce to complete human intelligence tasks (HIT) at a competitive rate. It provides an on-demand, scalable and highly qualified workforce paid only by results and selected by Amazon.com to help developers create better retail platforms with total flexibility.

Affectivity addresses the feelings or emotions associated with working with a company or using its products and services. It is highly correlated with a sense of belonging to a certain group or class (Atkin, 2004). It is also correlated with the concept of co-branding where a brand or company may be associated with the attributes of the product or benefits derived from it (Farquhar *et al.*, 1992). Such a brand generates emotions and feelings among its customers. A clear example of affectivity may be observed through the innovative e-book reader "Kindle" Amazon.com launched in 2007. Since then several blogs, forums, web sites and even a social network have emerged online with the aim of connecting users who share a common passion for the product. Another example is Amazon.com's ability to generate an emotional bond among its consumers through its innovative AuthorCentral service. This service offers the possibility for Amazon.com's end consumers to interact with and obtain the latest information about their favourite authors. It enables users to create an emotional bond and connection between the book they have purchased and the author. Similarly, the author of the product, i.e. who uses Amazon.com to sell their book, also enjoys similar reactions by being connected to their fans and buyers. By being able to interact directly with virtually thousands of potential buyers, authors have the possibility to create

affective bonds with their actual and prospective future clients. Small online shop owners (i.e. shopping infrastructure customers) can also leverage Amazon.com's brand reputation as an online retailer. By being accepted as an integrant part of the Amazon web site, third party retailers feel they are part of Amazon.com: the largest and most successful online store.

Conclusions

This study examines not only the innovation and value proposition literature, but also provides foundations for the emergence of new innovation tools.

Although scholars (Kambil *et al.*, 1996) argue the value proposition concept is too vague to be useful for innovation, our research indicates it can be of great use for innovation if it is systematically decomposed.

By contributing to a better understanding of the value proposition concept and its correlation with innovation, we obtained a framework which can help both academics and practitioners better understand the structure of a value proposition and its role in the innovation process.

It is customers who decide whether or not to purchase a certain product; therefore, innovations must be based on what customers truly value. Since managers are ultimately the decision-makers, our PERFA framework offers them guidance on what aspects to improve or innovate on their innovative offerings in order to generate value for their customers. A value-focused approach using our PERFA framework requires managers to rethink their perspective on innovation by putting themselves in the customer's shoes. In doing so, managers are able to identify key factors among the five perspectives of PERFA and make better decisions when deciding what to innovate so as to improve the value proposition for their customers.

Implications for managers and other affected decision-makers

Both managers and practitioners can benefit significantly from our findings. By applying the PERFA framework, they can better understand what is the impact of their novelty and how it will affect their value proposition. It may also complement existing tools such as the strategy canvas or the Four Actions Framework that Kim and Mauborgne (2005) developed in their book *Blue Ocean Strategy* by offering further insights into how innovation and the creation of a blue ocean may generate an enhanced, customer-focused value proposition.

The PERFA framework can also be used to evaluate the impact of competitors' novelties in the market. By identifying which of the five elements of PERFA the novelty has the greatest impact on (both positive and negative), managers may more accurately design a strategic response to counter the competing innovation.

Last but not least, it will also enable managers to understand which factors reflect competition in the industry and to identify the current innovation trends.

Limitations and suggestions for future research

This research is one of the first to correlate value proposition and innovation. One limitation relates to the research approach itself. Although case studies are frequently used in innovation research, there is still a lack of standardised approaches to data collection and analysis. Therefore, further quantitative research is needed to make the research more statistically generalisable.

The research focused on identifying value proposition elements but did not focus on the relationships between them or the importance of individual elements in different contexts such as product, industry or customer life cycle. Further research should attempt to correlate the value proposition elements with the success of individual innovations.

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