THE ELEMENTS OF VALUE

Value lies in the eye of the beholder. But as two Bain & Company experts indicate, universal building blocks of value do exist.

Interview by Karen Christensen

Figuring out what consumers truly value is no easy feat. Describe how your work on 'the elements of value' began.

Eric Almquist: A few years ago, after doing hundreds of consumer studies for our clients over three decades, we realized that we had some very powerful intel about what people value. Initially, we used our research to identify 24 elements of value in the consumer arena — but we suspected there were more. So, in 2015, we did some new qualitative research, talking to consumers directly about why they purchased a particular product.

We really probed people, to get down to the fundamentals. If someone said, 'I use Bank X because it's convenient', we would ask, 'What does convenience *mean* to you?' We did this repeatedly to get down to the most granular elements of value. In the end, we identified 30 hierarchical elements of value for consumers, and last year, we set out to do the same for the business-to-business (B2B) realm.

Our basic theory is that 'value' in the eyes of consumers and B2B customers is not monolithic: It is actually composed of different types of value, and the right combination of elements can pay off in customer loyalty, greater willingness to try products and sustained growth.

Describe how your framework relates to Abraham Maslow's Hierarchy of Needs.

EA: Once we had our 30 elements of value for consumers, we knew that we had to organize them somehow, so we looked around at existing frameworks for inspiration. We realized that an analogy could be made with **Abraham Maslow**'s Hierarchy of Needs. This well-known 'pyramid of human needs' starts out with the most basic physiological and safety needs; once those are met, the user moves on to focus on fulfilling psychological needs like belonging, love and feelings of accomplishment. At the very top of the pyramid are self-actualization needs, such as achieving one's full potential.

We thought about our 30 elements of value in the context of Maslow and organized them into four hierarchical categories. The elements of value for consumers range from *functional* to *emotional* to *life-changing* to *social impact*. To give you some concrete examples, the *life-changing* element 'motivation' is at the core of **Fitbit**'s exercise-tracking products; the *functional* element 'organizes' is central to the success of **The Container Store** and **Intuit**'s TurboTax, both of which help people deal with complexity; and the owner of a **Leica** camera can enjoy the

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life-changing element of 'self-actualization', as a result of the pride that comes with owning a camera used by many famous photographers.

Smartphones are really just bundles of elements of value: You can contact your friends on your device; there are tools to help you organize your life, like calendars; you have access to your money; you have entertainment, whether it's video or audio. One of the reasons smartphones have been so successful is that they deliver on multiple elements of value — including functional, emotional and life-changing elements — in a way that is unprecedented in business history. With the iPhone and iPad, for instance, **Apple** delivers on 11 of the 30 elements of value. It's quite astonishing how they have achieved that. People will give you their money, time and attention in exchange for various types of value.

You have said that a key challenge for today's leaders is to examine their offerings and come up with new 'combinations of value'. Please explain.

EA: There's a lot of talk these days about Big Data and the use of advanced analytics to uncover value. Data does play a role in this, but at the heart of every successful product or service is the concept of value that one is exchanging with the consumer. I would strongly encourage companies to spend at least as much time thinking about *what kind of value they can add* as they do thinking about data analytics.

How did you *quantify* value in your research?

EA: We surveyed more than 10,000 U.S. consumers about their perceptions of nearly 50 U.S.-based companies. Each respondent scored one company — from which he or she had bought a product or service during the previous six months — on each of the 30 elements, using a zero-to-10 scale. Then we looked at the relationships among these rankings alongside each company's Net Promoter Score (NPS) and recent revenue growth.

Our hypothesis was that companies that performed well on multiple elements of value would have more loyal customers than the others, and the survey confirmed that. Companies with high scores (defined as an 8 or above) on four or more elements of value from at least 50 per cent of respondents — which included Apple, **Samsung**, **USAA**, **TOMS** and **Amazon** — had, on average, three times the NPS of those with just one high score, and 20 times the NPS of companies with none. Offering more elements of value is clearly better — although it would be unrealistic to try to inject all 30 elements into a single product or service.

Jamie Cleghorn: We took a very similar approach on the B2B side. We surveyed corporate customers of products or services from companies like **Cisco** and Amazon Web Services, and asked them to rate their purchasing experience on the initial 30 elements of value. Next, we looked at a couple of things: Were they clearing the threshold that we had set empirically, so that we could declare that they were actually *delivering* on that attribute? To come up with the thresholds, we looked at correlations between growth, the elements of value and Net Promoter Score.

Once we had the scores, we worked with our clients to explore how to close 'value gaps' with their competitors. Were there new forms of value that they could be delivering that are adjacent to where they are playing today? And were there particular elements of value that they should really double-down on, to increase revenue growth? Whether you are coming at this from the consumer side or the B2B side, these are fundamental questions for any organization.

What are the key differences between the consumer-focused and B2B elements of value?

JC: They are definitely more similar than they are different. Both offer a method for decoding the behavioural economics behind a purchasing decision. However, the environment in which they operate is very different. First of all, with B2B, the 'table stakes' are much higher, because people are acting as agents on behalf of their organization, and the product or service must perform in a business setting. B2B buyers are in some ways implicitly risking their career with every purchase they make, so there's more of a fear factor there. There is also more purchase complexity. You can have product issues, service issues, supply chain issues, etc.

The number of stakeholders involved in B2B decisions who have an active voice is a lot higher, as well. You can have

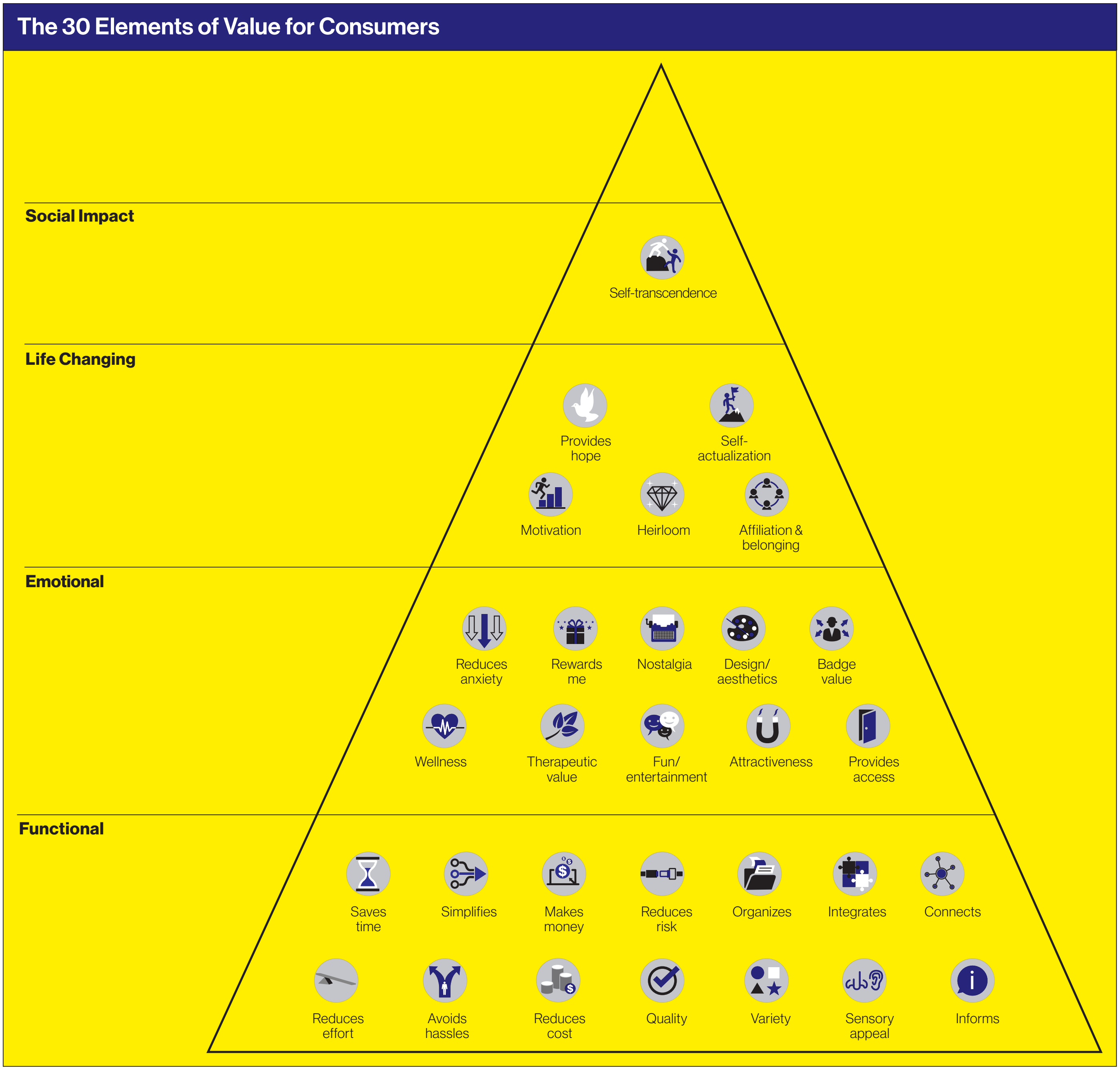

FIGURE ONE

everyone from a line-of-business operator, to a procurement manager, to a senior executive, to a frontline individual contributor all having a share of voice in the decision. It's a much more complex environment.

Talk a bit about the 'table stakes' required just to compete in the B2B realm today.

JC: We have identified four things that are binary — i.e. 'must haves' — at the table stakes level. First, the product must deliver on a specification. Most B2B purchases involve a 'spec' that the client is aiming to achieve, and this is clearly spelled out. Then there is the basic question of price: Is the product within a price range that is realistic? Third, does it meet with all the regulatory markers that a corporate purchaser must be compliant with? And finally, is it ethical? Am I transacting with a company that I'm willing to do business with on an ongoing basis?

EA: There are actually quite a few examples of companies failing at the table-stakes level. **Enron** is a great example. When it became clear that this was not an ethical company, they were

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out of business pretty much immediately. **Arthur Andersen**, an accounting firm that was working with Enron, also went out of business as a result of an ethical breach. So, these are things that *have* to be met. If you fail on these attributes, it can be fatal for your business.

At the very top of the B2B pyramid is what you call 'inspirational value'. What does that look like?

EA: One great example is a business called **Microsoft Azure**, which is a Cloud player. IT products are mission-critical for companies, yet the IT world has become very complex in terms of security issues and the 'upgradability' of systems over time. Given that headache, IT partners who can truly help companies meet their goals and adapt to all the changes happening actually provide the customer with an element of hope. Azure is the only company we found in our IT infrastructure research that achieved this. Their customers believe that they're not going to experience constant nightmares with their IT system, and that leaves them feeling hopeful about the future.

In general, how is increasing commoditization affecting B2B offerings?

JC: If you step back and survey the environment, it's pretty clear that the quality revolution is over. Today's supply chains are long, and they are often the same for several companies — whether it be physical supply chains, like shared factories, or digital supply chains, where companies use the same fundamental technology building blocks at the component level. The trick is, companies that share the same common inputs really need to be more creative in terms of how they assemble the elements to provide value to their customer.

For a long time, B2B was won on price and performance. But those things are very hard to differentiate on today. The companies that are still trying to differentiate on these elements will end up in a race to the bottom. The battlefield has shifted north on the pyramid, and it is now squarely in the 'ease of doing business' sphere — and in some cases, as with Microsoft Azure, it even moves up beyond that.

JC: We are increasingly seeing some big swings on the individual value elements, as well. One of the best-performing software companies in the world right now, **Salesforce.com**, also has the single biggest value proposition in terms of *personal value*, which is their Dreamforce Conference. Each year, they assemble hundreds of thousands of people in San Francisco and put on what is effectively a proprietary tradeshow that offers all sorts of education and entertainment. This event has built a huge and devoted following. So, we're starting to see consumer-type value offerings in the B2B realm, hitting at the high levels of the pyramid.

Which other companies are leading the way in delivering B2B value?

JC: At the lower levels of the framework, tractor manufacturer **John Deere** has excelled by putting a lot of interesting new digital features into its products, which has enabled it to breathe new life into the *performance* element. In terms of building really strong relationships, **Ecolab** is a great example of that. They have managed to differentiate themselves in what can be a commodity industry (chemicals) by building a high level of customer intimacy. They even offer on-site personnel, which is clearly a differentiated value proposition, and that has allowed them to rise above the industry for a long time. Another interesting one is **Henry Schein**, a distributor of dental and medical veterinary supplies. It's really hard to differentiate yourself within the realm of distribution, but they have done a great job with a corporate social responsibility program that truly differentiates them and has enabled them to grow their market for many years.

For those who want to embrace the elements of value, how do they get started?

JC: There are three areas where this framework can be applied. First, you can apply the elements of value to your basic strategy questions: Are you playing in the right place? Are you set up to win? Increasingly, strategy is intertwined with digital, so you can't address either one alone, and that has ramifications for the value you offer. Once you've decided *where to play* and *how to win*, you can use the elements to get into the detailed design of your offering. The framework can allow you to allocate investment dollars in a precise way, across categories.

The third area is go-to-market planning and execution. Increasingly, the customer experience is part-and-parcel of the

The 40 B2B Elements of Value

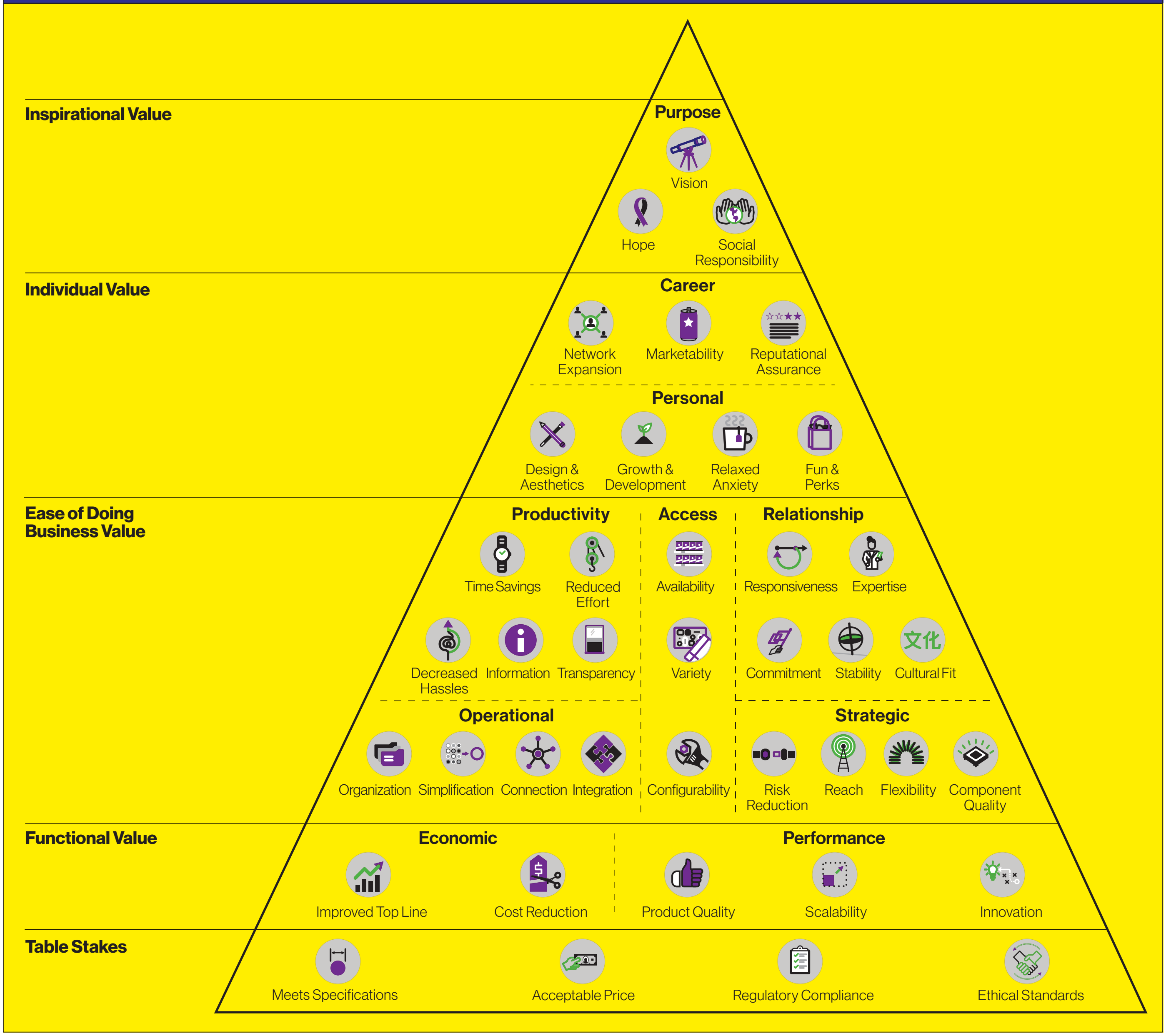
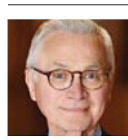
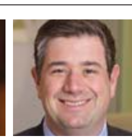


FIGURE TWO

product itself. Understanding tradeoffs on the route to market, pricing models — all of these become clearer when you understand the value you're offering and how it compares to your competitor set.

EA: We encourage people to internalize the elements of value and think about them often. We developed this framework as a heuristic tool to help people think about a very complex set of issues. Clearly understanding the value you are delivering, internalizing the pyramid, and thinking about it as it relates to your business and strategy will help you create even more value going forward. ***RM***





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