



PRESENTATION BY MATTHEW KREPPS

AT THE FORUM:

**"MARKET LEADERS AND SCENARIOS  
FOR THE 21ST CENTURY"**

March 13, 14 and 15, 2009  
"Villa d'Este" – Cernobbio (Como)

Reproduced by The European House-Ambrosetti for internal use only.



## Key Concepts of Value Innovation and Creating New Marketspace:

1. Overcoming the “Attacker’s Advantage”
2. Understanding the competitive landscape the way your customer sees it
3. Finding unoccupied niches
4. Determining whether significant latent demand resides in those niches

*Smell test:* Does the world look any different if I disappear?

*Counter examples:* - IBM’s Banking customers  
- All venture capitalists

<sup>1</sup> Copyright Matthew Krepps

## What is Value Innovation?

- Sometimes purely technology
  - Very hard to teach “inventiveness”
- More often, it’s a question of strategy...
  - Very hard to teach improvement on all dimensions
  - Making intelligent tradeoffs is critical

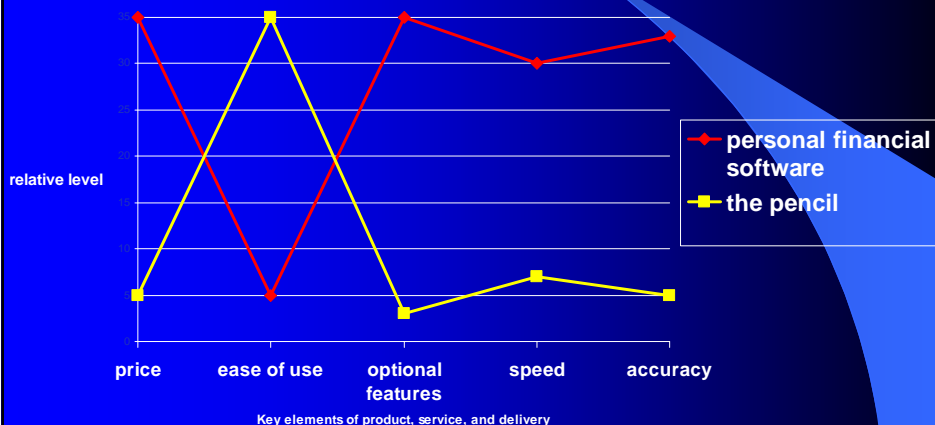
<sup>2</sup> Copyright Matthew Krepps

## What is a Value Curve?

- A value curve is a tool used to create a graphical depiction of the marketplace occupied by current offerings in the market. The tool is used to discover profitable, unoccupied niches.
- Step#1: Determine the key dimensions of price and performance.
- Step#2: Plot existing offerings.
- Step#3: Make value-adding tradeoffs to match latent demand to unoccupied niches.

3 Copyright Matthew Krepps

## The Value Curves in Personal Finance before Quicken



4 copyright Kim & Mauborgne

## The Key to Discovering a New Value Curve lies in asking Four Basic Questions

### Eliminate

What factors should be eliminated that the industry has taken for granted?

### Reduce

What factors should be reduced well below the industry standard?

### Raise

What factors should be raised well beyond the industry standard?

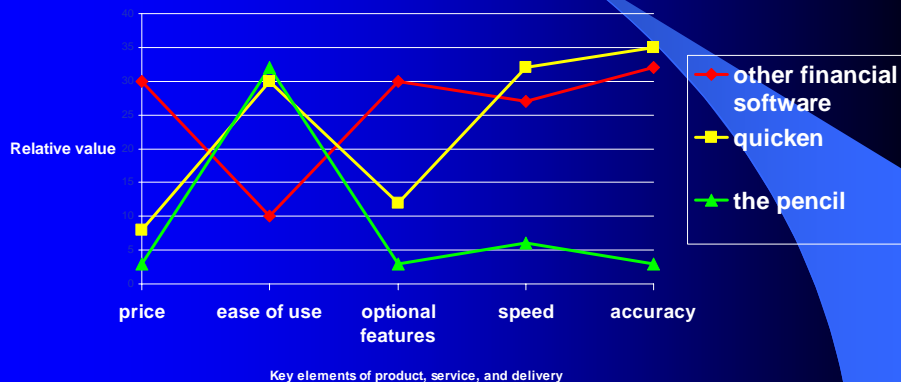
### Create

What factors should be created that the industry has never offered?

5

copyright Kim & Mauborgne

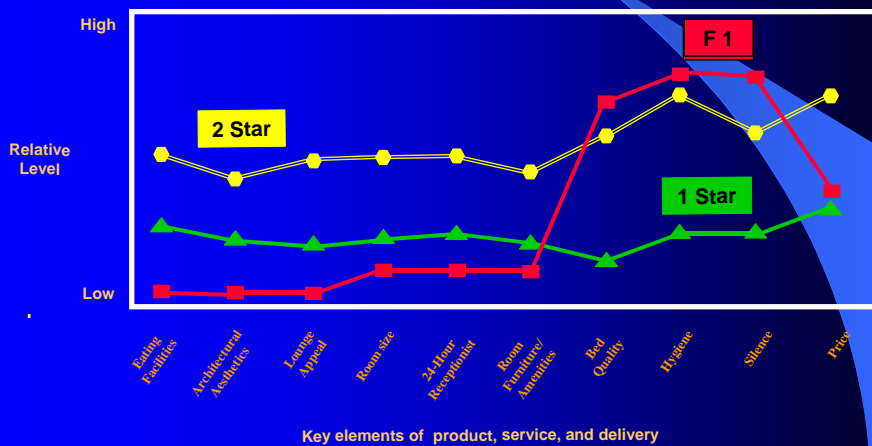
## Quicken's Value Curve



6

copyright Kim & Mauborgne

## Value Curve of **Formule 1** in the French Low Budget Hotel Industry



## Value Innovation Implementation Steps

1. Allocentrism: Think about every aspect of functionality important to the customer.
2. Improving all dimensions is (almost) impossible  
*Counterexample: CCA*
3. Don't just identify segments that are under-served, identify segments that are over-served
4. Be creative in defining and benchmarking against substitutes  
*e.g. pencils and cars*

# Shifting the Focus of Strategy

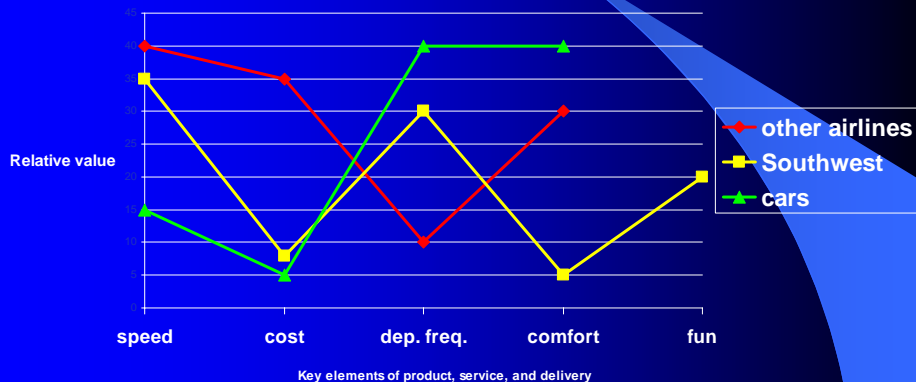
## From Head-to-Head Competition to Creating New Market Space

Head-to-Head Competition	The Conventional Boundaries of Competition	Creating New Market Space Focus
Focuses on rivals within industry	← Industry →	Looks across substitute industries
Focuses on competitive position within strategic group	← Strategic Group →	Looks across strategic groups within its industry
Focuses on better serving the buyer group	← Buyer Group →	Redefines the buyer group of the industry
Focuses on maximizing the value of product and service offerings within the bounds of its industry	← Scope of product and service offerings →	Looks across to complementary product and service offerings that go beyond the bounds of its industry
Focuses on improving price-performance in line with the functional-emotional orientation of the industry	← Functional-emotional orientation of an industry standard →	Rethinks the functional-emotional orientation of its industry
Focuses on adapting to external trends as they occur	← Time →	Participates in shaping external trends over time

9

copyright Kim & Mauborgne

# Southwest Airlines Value Curve



10

Copyright Matthew Krepps

## Creating New Marketspace Via the 6 Pathways to Profitability:

- Southwest

1. *Industry*: cars vs. other airlines
2. *Strategic Group*: regional low cost vs. national full service
3. *Buyer Group*: mass market vs. business travelers, travel agents, or computer reservation systems
4. *Scope of Product or Service*: complements, e.g. parking
5. *Functional/Emotional Orientation*: Fun
6. *Time*: Recognizing inevitable upshot of deregulation and moving aggressively, contrast with Braniff

Key to Sustainability: Exploit maximum number of pathways