Understanding Value Propositions and Effects Ladders.

Background
A supplier’s users are different in how they expect the supplier to respond to their demands. And the supplier’s users face the same challenge in relation to meeting the range of unique demands of their customers. There are things that a supplier’s user demands that are common across all of a supplier’s users, so that its market can be defined as those users with these common demands that it can supply. This common demand is a symmetric demand because there is symmetry between what the supplier is offering and how its market is defined in relation to its users.

But there is also an asymmetric component of a supplier’s users’ demands. Asymmetric demand is that component of what the user wants that is particular to their way of competing. It is what distinguishes the form of one user’s demand within a market from the demands of another. A value deficit arises when there is a failure by the supplier to address this asymmetric component of a user’s demand. That is, a value deficit arises through a failure to address the needs of a user’s particular way of competing.

Such deficits will always arise in relation to users. But the effects of digitization on the efficiency and logistical reach of suppliers is also increasing the supplier’s ability to organize its response to the user’s demand more conveniently and relevantly. The balance of power between the symmetric and asymmetric components of demand is shifting towards having to address the value deficit explicitly in order to counteract fragmenting markets, if not to capture new forms of value [1]. The general tendency to move ‘downstream’ requires suppliers to face difficult choices in how they balance the differing competitive challenges of the supply- and demand-sides of their business. Value propositions provide an approach to capturing these new forms of value.

In what follows, the relation of a supplier to its user is considered. Insofar as the supplier chooses to address the asymmetric nature of the user’s demand, it must understand the nature of the demands on the user by the user’s customers within the user’s context-of-use. This creates a parallel process for the supplier between working with its relation to the direct demands of its users, and working with the indirect demands of its users arising within each user’s context-of-use from the user’s relation to the demands if its customers.

Value Propositions
A Value Proposition is a proposed relationship with a user that offers a solution, which has a real or intrinsic value in resolving a user’s problem. In this definition the user’s problem may be, for example, “I want to run a training course” or “I want to do a market analysis”. And the appropriate forms of supplier proposition might be “you need to be taught Belbin metrics” or “we will do a market survey for you”. But in this definition “the user’s problem” is also identified by focusing on the user’s own particular relationship to its competitive space, which is the business environment in relation to which the user’s responses create or maintain competitive advantage. From the supplier’s point of view, this competitive space is the user’s way of competing. Key components in this definition are:
A note on Value Propositions and rcKP.

Figure 1: The User’s Competitive Space

- A proposed relationship – a value proposition expresses what the supplier will do to add value to its user’s business within its competitive space.
- A solution to that user’s problem – the supplier’s proposition must address meeting the user’s problem in a way that is particular to the user’s way of competing.
- Has “real or intrinsic value” – the user must be able to perceive how the proposition addresses the user’s value deficit, and the more this is so, the more the user will be prepared to pay.

Whatever the supplier is proposing will have a commercial dimension – that is the terms under which assistance is provided and the way in which risks and rewards are shared, and an implementation dimension that is, the manner in which assistance is provided (content/timing/scope). The value stairs define how these two things relate to each other within the context of a specific user relationship. It is how these two dimensions come together in relation to the user’s organization that creates value. Within this context-of-use, value for the user will be expressed in terms of the cumulative levels of revenue and expenditure associated with it. Value will therefore be calculated in terms of the supplier’s through-life impact on these cumulative expenditures.

How will the user determine the value of the supplier’s proposal?

The user will only be able to assess the value of a proposal when it is considered in relation to its own environment. And its environment is determined by a number of factors, these include:

- The user’s chosen strategic position in its competitive space
- The user’s response to demand drivers on that strategic position
- The user’s owners / stakeholders expectations

In addition, the personal agenda of decision-makers will impact on the perceived value of the proposition.
Figure 2: The personal agenda of decision-makers

Therefore, there are different value influences. To understand the dynamics and nature of the influences it is firstly necessary to understand the relationship between the user and their competitive space. In particular, it is necessary to know:

- How the user chooses to position themselves in their competitive space
- any anticipated or proposed changes to this positioning and
- the relationship between the user and their customer(s)

A user’s positioning in the competitive space

Critical to the user’s actual or proposed response to their own competitive space is the concept of how they chose to position themselves in relation to the demands they are facing\(^1\). This is known as their strategic positioning. The user’s response to their competitive space will result in their placing a greater, or potentially singular emphasis on either a supply-side or a demand-side approach – in our terms becoming

- ‘supply-side oriented’ or
- ‘demand-side oriented’.

The user’s strategic positioning may be in a process of moving from one orientation to another and is not a decision made in isolation. The competitive space in which a user operates has characteristics – i.e. it is ‘organized’ in a particular manner; it is also populated by other competitors. The choice a user makes about strategic positioning must take these factors into account.

The supply-side oriented organization

The supply-side oriented organization will be internally focused and will attempt to provide a relatively homogeneous product or service into the competitive space based on symmetric assumptions about demand. Its approach to the competitive space will be dominated by supply-side thinking. Examples of ‘supply-side oriented’ organizations are: supermarkets, automobile and component manufacturers, package holiday companies and clothing manufacturers.

A supply-side oriented organization primarily organizes itself around the efficiency of internal processes and operations - for example, competing on cost and reliability, or around

---

\(^1\) The emphasis here is because these same distinctions can also be applied to the supplier. Only a demand-side oriented supplier will concern itself explicitly with rcKP-type propositions, although it may still be providing them implicitly through informal processes.
the nature of the product itself in terms of product range, product or service features, etc. The management mind-set throughout a supply-side oriented organization prides itself on meeting internally generated performance targets in relation to market segments defined by the nature of their product or service [2].

The propositions emanating from a supply-side oriented organization can be easily replicated by that organization (and, to some extent, competitors) in a way that ignores differences between users’ contexts-of-use, and are referred to as \textit{r-type} propositions. An example would be the \textit{r-type} proposition of a supermarket:

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{The \textit{r-type} proposition}
\end{figure}

The demand-side oriented organization

A ‘demand-side oriented’ user organization organizes itself around the requirements of its users within their context-of-use – for example, competing on responsiveness to specific requirements, competence, flexibility, quality, personalization, and total “customer intimacy” [2]. Its approach to the competitive space will be dominated by the demand-side
issues (e.g. personal and specific customer requirements or problems) that it addresses in organizing its response. Thus a demand-side oriented organization primarily focuses itself around satisfying the demands of its users that are particular to them within their context-of-use.²

The propositions emanating from a demand-side oriented organization will utilize the organization’s capabilities, know how, and problem identification expertise in response to the demands of its users within their competitive space; the propositions that do this being referred to as c-, K-, and P-type propositions (see ‘Effects Ladders’ below).

The demand-side oriented organization will be externally focused and will attempt to provide a relevant and personalized response to its user. As a result of this it will, in addition to responding to a particular user’s requirement, introduce some form of change into the way the user’s competitive space is currently organized. This fact may provide temporary or lasting competitive advantage for the user.

Examples of ‘demand-side oriented’ organizations are: private health specialists; bespoke tailoring; specialist tour operators; private banking organizations; specialist motor manufacturers; consultancies; event organizers.

In a demand-side oriented organization, the value proposition offered by a supplier to a user may be one of, or a combination of, the following:

- a ‘Problem identification’ proposition (P-type)³ – a proposition which defines how the demand situations which are affecting the user’s customers should be organized, identifying the issues and problems to be addressed in arriving at appropriate solutions, and then delivering those solutions.⁴ The supplier is able to deliver this proposition by working with the user’s relationship to their customer and applying the supplier’s own (high level of) experience and knowledge.
- an application of a ‘Know-how’ proposition (K-type) – a proposition which offers to take responsibility for the definition of a solution to a particular set of issues and problems and delivering that solution to the user in a way that is particular to the user’s relationship to their customer. The supplier exercises design control over the solution.

² This is why the transnational model is so relevant to the supplier’s chosen demand-side strategic position. The whole concept of the transnational organization is one of agility, enabling teams to develop appropriate responses (value propositions) to their “local” user(s) by drawing on supporting global infrastructures in the particular ways that allow them to satisfy the particular needs of their user(s).
³ P also stands for ‘pain’. The user has a pain, and wants it to be formulated as a problem that can be ‘solved’.
⁴ The P-type proposition therefore creates a demand organization that can be targeted by K-type propositions.
A note on Value Propositions and rCKP.

- a ‘customization’ proposition (c-type) – a proposition which offers to provide experienced and skilled resources and capabilities to the user in a way that can be customized to the user’s particular use of it with their customers, where those resources and capabilities can be used by and under the direction of the user as part of how the user solves a particular set of issues and problems for their customers. The user exercises design control over the solution.

An example of a demand-side oriented business and ‘cKP-type’ propositions can be found in the office facilities / building competitive space:

The Turn-key Building Contractor Example

In this example, the contractor is offered a ‘P-type’ proposition – helping to define the exact needs of the user’s relationship to its customers, so that the user can remain competitive in its competitive space as a contractor; coupling this with a ‘K-type’ proposition – the user taking responsibility for the delivery of the solution; which then makes use of their own and other sub-contractors’ c-type capabilities. These propositions – and their result – would only be attractive to the user – and of perceived value – if they focused on solving the needs of the user’s relationship to its customers within the user’s own competitive space.

The parallel in the consultancy competitive space would be what Gartner refers to as the “one stop” management consultancy / business integrator practice.

Supply-side vs demand-side oriented organizations and Effects Ladders

From the Supplier’s perspective the fundamental difference between the two types of approach to propositions is explained by the following attitudes:

- The Supply-side oriented supplier (r-type propositions): Does as much as possible for the supplier’s business without jeopardizing the relationship with the user.
- The Demand-side oriented supplier (cKP-type propositions): Does as much as possible to identify and resolve the user’s problems without jeopardizing the sustainability of the supplier’s business.

For the demand-side oriented supplier, the Effects Ladder becomes the means of understanding the particular way(s) of organizing the user’s response to the demand
situations of its customers, thus defining the particular problems that can be targeted by the supplier’s propositions. This Effects Ladder is therefore used to describe the relationship between the user and the user’s customers. Thus, the Effects Ladder enables the supplier to understand the user’s relationship to its competitive space, enabling the supplier to provide relevant, and therefore attractive, cKP-type value propositions.

The Effects Ladder

This Effects Ladder has a number of characteristics:

- The demand situation being addressed by the user is broken down into a number of subordinate problems (customer situations for the user), which together organize the user’s response to its customer’s demand situation. These may be targeted individually or severally by propositions.

- Above the K-ceiling is the domain in which problems are too large and/or intractable for the user’s customer (the Problem Domain), requiring that they be broken down into problems below the K-ceiling (within the Knowledge Domain) that are not too large and/or are tractable.

- c-level is the level below which problems can be solved with no knowledge of the customer’s context-of-use. These problems below c-level are the ones amenable to r-type propositions.

The domain between c-level and the K-ceiling (the Knowledge Domain) is constantly moving, as both suppliers and users learn new ways of creating value (hence c-level rising!). It is this zone that is targeted by a demand-side oriented supplier.5

The key challenge facing a demand-side oriented user business is how it manages the risks of targeting effects ladders with propositions that make the user business sustainable.

5 Note that propositions that target the K-domain assume demand asymmetry, while r-type propositions targeting below c-level assume symmetry.
The rcKP cycle

The question of sustainability of the user business can be understood in terms of two dimensions:

- The demand-side user engagement (‘intimacy’) of the supplier business, and
- The defensibility of the know-how that is the basis of its proposition. This defensibility will determine the profit potential of the proposition, and is the other side of its imitability by competitors, which will be partly a function of the nature of the underlying technology, and partly of the business processes by which that underlying technology is brought to bear on the user’s problem. The processes of knowledge diffusion will ultimately reduce defensibility however good the patent protections.

This gives us the following diagram:

The distinction between supply-side and demand-side orientation will be reflected in the economics of the cKP propositions versus those of the r-type propositions. The general point to be made about this cycle is that globalization accelerates the diffusion/commoditization of know-how, placing increasing emphasis on the ability to profit from the cKP part of this cycle.

References

Glossary

demands
context-of-use – the context within which a user makes use of a product or service provided by a supplier, likely to be shaped by the user’s relationship to its own customers. ................................................................. 1
direct – the demands arising directly from a supplier’s users. ................................................................. 1
indirect – the demands from a supplier’s user arising within each user’s context-of-use from the user’s relation to the demands if its customers................................................................. 1
effects ladder
- the means of understanding the particular way(s) of organizing the user’s response to the demand situations of its customers, thus defining the particular problems that can be targeted by the supplier’s propositions. ................................................................. 6
c-level - the customization level below which problems can be solved with no knowledge of the customer’s context-of-use. These problems below c-level are the ones amenable to r-type propositions................................................................. 7
K-ceiling – the level below which problems are not too large and become tractable. ........ 7
Knowledge Domain – the domain in which problems are not too large and become tractable. ................................................................. 7
Problem Domain - the domain in which problems are too large and/or intractable for the user’s customer ................................................................. 7
orientation
demand-side – the orientation of an organization around satisfying the demands of its users that are particular to them within their context-of-use................................. 5
supply-side – the orientation of an organization around the efficiency of internal processes and operations. The management mind-set throughout a supply-side oriented organization prides itself on meeting internally generated performance targets in relation to market segments defined by the nature of their product or service........ 3
relation to demand
asymmetric – that aspect of a user’s demand that is particular to their way of competing, and which distinguishes the form of one user’s demand from another’s. ................. 1
symmetric – demands that are common across all of a supplier’s users defining the supplier’s market. ................................................................. 1
value deficit – that which arises when the supplier fails to address the asymmetric component of a user’s demand...................................................... 1
value proposition
- a proposed relationship between a supplier and a user that offers a solution, which has a real or intrinsic value in resolving a user’s problem............................................. 1
c-type - a customization proposition which offers to provide experienced and skilled resources and capabilities to the user in a way that can be customized to the user’s particular use of it with their customers, where those resources and capabilities can be used by and under the direction of the user as part of how the user solves a particular set of issues and problems for their customers. The user exercises design control over the solution................................................................. 6
K-type - a Know-how proposition which offers to take responsibility for the definition of a solution to a particular set of issues and problems and delivering that solution to the user in a way that is particular to the user’s relationship to their customer. The supplier exercises design control over the solution................................................................. 5
P-type - a proposition which defines how the demand situations which are affecting the user’s customers should be organized, identifying the issues and problems to be addressed in arriving at appropriate solutions, and then delivering those solutions. P stands for ‘problem’ but also stands for ‘pain’. The user has a pain, and wants it to be
formulated as a problem that can be ‘solved’. The supplier is able to deliver this proposition by working with the user’s relationship to their customer and applying the supplier’s own (high level of) experience and knowledge.

**r-type** – a proposition that can be easily replicated in a way that ignores differences between users’ contexts-of-use.

**sustainability**

*defensibility* - the other side of a proposition’s immutability by competitors, partly a function of the nature of the underlying technology, and partly of the business processes by which that underlying technology is brought to bear on the user’s problem. The processes of knowledge diffusion will ultimately reduce defensibility however good its patent protections.

**engagement** – the extent of the supplier’s intimacy with the user’s business.

**value stairs**

- a relationship between the commercial dimension of a value proposition and its implementation dimension within the context of the specific user relationship.

**commercial dimension** - the terms under which assistance is provided and the way in which risks and rewards are shared between supplier and user.

**implementation dimension** - the manner in which assistance is provided (content/timing/scope).