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### Value Innovation

Key ideas from the [Harvard Business Review](#) article By W. Chan Kim, Renée Mauborgne

#### The Idea in Brief

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Struggling to stay ahead of your rivals? No need. Instead of trying to match or beat them on cost or quality, make the other players irrelevant--by staking out new market space where competitors haven't ventured.

How? Become a **value innovator**: Identify radical ideas that make quantum leaps in the value you provide customers.

Value innovators ask, "What if we started fresh--and forgot everything we know about our industry's existing rules and traditions?" When CNN's creators asked this question, they replaced the traditional networks' format with real-time news from around the world, 24 hours a day.

Value innovators don't set out to build competitive advantage. But their innovative practices lead them to achieve precisely that. Virgin Atlantic, for example, cut first-class airline service and channeled cost savings into greater value for business-class passengers: more comfortable seats and free transportation to and from airports. It attracted not only business-class customers but also full-economy-fare and first-class passengers of other airlines.

#### The Idea in Practice

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To become a value innovator, consider the following strategies, as exemplified by French hotelier Accor:

**Assume that you *can* shape your industry's conditions.** In the mid-1980s, the budget hotel industry in France had two markets: inexpensive hotels that had poor beds and noise, and pricier hotels that provided upscale amenities and a decent night's sleep. Accor redefined the industry by providing inexpensive *and* superior accommodations to cost-conscious travelers.

**Focus on what the majority of your buyers value.** Accor identified what customers of all budget hotels wanted: a good night's sleep for a low price.

**Consider how you might change your offering to capture the market you've identified.** Eliminate features that offer no value for customers--or that detract from value. Simplify products or services that have been overdesigned in the race to match or beat rivals. Further improve high-value features so that customers no longer have to make compromises. And create new features that your industry has never offered.

Accor created an entirely new hotel concept: its Formule 1 line of budget hotels. The company eliminated costly restaurants and lounges, reckoning that target customers could do without them. It reduced other features; for example, providing receptionists only during peak check-in and check-out hours, and replacing closets and dressers with a few shelves and a pole for clothing. And it improved several features--for instance, providing good sound insulation by building rooms with low-cost modular blocks.

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## Further Reading

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### Articles

#### [What Is Strategy?](#)

*Harvard Business Review*

January-February 2000

by Michael E. Porter

This article underscores the strategic power of value innovation. Value innovators achieve sustainable competitive advantage through **strategic positioning**: performing different activities from rivals or similar activities in different ways. In addition to serving broad needs of many customers in a narrow market, you can establish your strategic position by serving few needs of many customers--as Jiffy Lube does providing only auto lubricants. Or you can serve broad needs of few customers, as Bessemer Trust does by targeting only very wealthy clients.

Use your strategic position to make decisions about what you *won't* do as well as what you *will* do to compete. Avoid activities that can be achieved only at the expense of another area.

Also ensure that your company's activities work together to reinforce your strategic position. For instance, Vanguard aligns all of its activities with a low-cost strategy--distributing funds directly to consumers and minimizing portfolio turnover. When activities mutually reinforce each other, rivals can't easily copy them.

#### [Breaking Compromises, Breakaway Growth](#)

*Harvard Business Review*

September-October 1996

by George Stalk, Jr., David K. Pecaut, and Benjamin Burnett

Value innovators in search of new markets try to identify compromises that industries force consumers to make--then develop new forms of value so consumers don't have to compromise. This article takes a closer look at the opportunities created by undoing those compromises.

Companies who break compromises release enormous trapped value--enough to stimulate major sales and profit growth. How to find and exploit compromise-breaking opportunities? Here are just a few approaches: 1) *Shop the way customers shop*. When Schwab employees, for instance, began using the company's products and services just as Schwab's customers did, they confirmed the belief that customers would value the convenience of 24-hour-a-day, 7-day-a-week systems. 2) *Find out how customers really use your product or service*. Schwab noticed that many customers called back to confirm that their trade had gone through as requested. To save customers trouble, it began providing immediate confirmation at order-taking time. 3) *Explore customers' deepest dissatisfactions*. Chrysler's minivan tapped into consumers' profound dissatisfaction with hard-to-load station wagons and difficult-to-drive vans. The minivan broke the compromise with easy-to-load *and* easy-to-drive features.

## About the Authors

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