



Customer value creation via business model implementation

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ABSTRACT

Business models are the blueprints upon which the whole structure and operation of the company is based. The aim of this paper is to underline the importance of business models in value creation for the company and to dig a bit deeper by revealing the synthesis of an abstract business model concept. The importance of customer value proposition via the customer value creation is very well underlined in order to pinpoint the author's prevalent idea that focusing on customers' needs should be the alpha and the omega for the eurythmic operation of every contemporary company.

Keywords

Business models; Customer value proposition; Customer value creation; Key resources; Key processes; Lean.

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INTRODUCTION

According to Johnson et al. (2008, p. 3), business models usually consist of four main interlocking elements that combined together can create and deliver value. These elements are the following:

- ✓ Customer value proposition (CVP)
- ✓ Profit formula
- ✓ Key resources
- ✓ Key processes (Johnson et al., 2008).

As these four elements are the main pillars upon which every business can be built and operate leading to profits, we need to discuss a bit more about them.

CUSTOMER VALUE PROPOSITION

A customer value proposition is a description of the experiences a target user will realize upon purchase and use of a product (Hudadoff P., 2009). This means that the company need to hear what is good for customers and create value for them in order to be able to create or to evolve its profit formula and adjust its key processes after finding the right (key) resources needed.

So, customers need to create value from the product they are buying, but this is not always the only case. Creating value is not a panacea and on the other hand is an ambiguous description of what customers need when they buying something. There are certain products which are not creating value. In fact they lose value from the moment you buy them, such as cars. Customers who buy expensive cars they know that the moment they are going to use their car keys, their new car's value is going to decrease. So, why they want to buy such a car? The reason why is quite obvious. Because they want to create a social value. They want to create a status. It seems that certain social stereotypes can have more impact than value creation in customers' mind.

Other reasons which can affect customers' decision without value creation is the balance many customers want to have between product cost and usability. They need to acquire a product that will work for them for a long time. This is also a decisive paragon in helping them take the final buying decision. In a way, in customers' mind this can create a long term value, as they will be able to use the product for a long time and avoid buying another one shortly after. This will result to a depreciation of the product, which means value creation in the long run one way or another.

There are also other several paragons which can determine how customers perceive their value creation when they try to exercise their consumerist behavior. These paragons can be the following:

- ✓ Ethical reasons. As they can buy a product even if they know that they are not going to use it, just because they will contribute in a way in helping fellow citizens etc.
- ✓ Budget reasons. They buy what they can afford, but because they don't have enough money to buy expensive products, they try to create value by buying a substitute product which they think will give them a kind of profit/value creation, as they bought the best possible one with their budget.
- ✓ Advertising reasons. Many customers get convinced by advertisers that a specific product will create value for them one way or another, so even if they don't want it they are willing to buy it. This is the case with the bundle selling of products. Although they maybe don't want to buy three tooth pastes, they are considering buying them because if they buy three at a lower price on the long run they are going to earn an amount of money etc.

In order companies to understand their customers' needs and implement the right customer value proposition, they need to complete the puzzle of the "total customer experience". Total customer experience includes three basic paragons which are the following:

- ✓ Purchase experience, which has four major components: information gathering, prioritizing needs, evaluating alternatives, order placement and payment.
- ✓ Usage experience, which has the following components: delivery and installation, product usage, product maintenance, product repair.
- ✓ Replacement experience, which has the following components: product upgrades, returns and warranty, product replacement, product disposal (Best R., 2014).

The customers' level of satisfaction depends on the degree that they perceive and are contented with all these three stages of total customer experience (Best R., 2014).

The question that rises, is how the company will be able to hear all these customer voices and implement the customer value proposition and even re- arrange its business model in a way that it will be able to follow this proposition, when these voices are so many and so controversial sometimes?

Market research

In order to understand customers' needs and realize what is the thing that creates customer value, companies need to be able to understand their customers' profiles in terms of what is their social status, are they married? Do they have families with kids and how many? Which products they prefer? Which is their economic situation? How old are they? Are they males or females and in which percentile? etc.



In order companies to be able to obtain such demographics they need to implement the right market research. This market research, which usually based on regression, cluster, factor and variance analysis (Thomas G., 2007), will be able to lead in the “needs- based market segmentation” (Best R., 2014) which will provide the company with the insight needed in order to try to cope with all its customers’, and potential ones, needs. So, in order companies to solve their customers’ needs and create the best possible customer satisfaction thus value, they need to step into a successful market segmentation (Best R., 2014).

Social Media

According to Wilson et al. (2011), there are several ways/strategies a company can use in order to take advantage of the social media platforms.

- ✓ “The predictive practitioner”. This strategy implements an interactive platform between the company and the customer in order to help the company understand customers’ needs thru a communication channel via which, customers can give to the company valuable insights in the form of feedback and help the company to produce a better and more customer friendly product. This fact per se is capable of creating the customer value needed in order to give to the company the competitive advantage needed (Wilson et al., 2011).
- ✓ “The creative experimenter”. Social media platforms can be used as the pipelines via which companies can be able to listen to both their customers and employees. Small scale tests which will depict their customers and employees ideas and approach are useful tools in order to guide companies via uncertainty paths and help them create competitive advantage via the needed customer value creation (Wilson et al., 2011).
- ✓ “The social media champion”. Advertisement via social media can promote products and create the customer awareness needed in order to lead when the time will come to the needed sales thus competitive advantage (Wilson et al., 2011).
- ✓ “The social media transformer”. This strategic approach includes large- scale interactions which can be extended to external stakeholders, and can allow companies by the use of unexpected, which will spring via this new interaction channel, to improve the way they do business, something which means better customer value and competitive advantage creation (Wilson et al., 2011).

Such strategies can help companies understanding their customers’ value proposition, create customer value and implement a competitive advantage needed for them in order to become more antagonistic and thrive.

PROFIT FORMULA

According to Johnson et al. (2008), profit formula is based upon four main pillars, which are the following:

- ✓ *Revenue model*. This implies the well- known “price x volume”, that is how much money can be made. According to Johnson et al. (2008, p.5), “volume can be thought of in terms of market size, purchase frequency, ancillary sales etc.”
- ✓ *Cost structure*. This is a very crucial pillar, as it can help the company to allocate cost problems and fix them. How costs allocated is very important, as it includes cost of key assets, direct costs, indirect costs, economies of scale (Johnson et al., 2008).
- ✓ *Margin model* (Johnson et al., 2008). This is also very important as it can depict the profit margin of each transaction in order to create revenue without disturb the equilibrium between cost, profit, customer need and market position.
- ✓ *Resource velocity*. This includes the time needed for resources to be used in order to support target volume. It includes lead times, throughput, inventory turns, asset utilization etc. (Johnson et al., 2008).

KEY RESOURCES

This is a very important element of a successfully implemented business model. It includes several key items which can be combined in order to increase customer value and deliver the results needed by the company. According to Johnson et al. (2008), the key resources can be the following:

- ✓ People
- ✓ Technology and products
- ✓ Equipment
- ✓ Information
- ✓ Channels
- ✓ Partnerships/ alliances
- ✓ Brand.

Although all of the above mentioned key resources are of equivalent importance in the implementation of a business model which will be able to produce the competitive advantage needed for the company, is the author’s prevalent idea that the most important ingredients of this “soup” of success is and always was, people. There is no magic in business without people’s hand. The right stuff can deliver the right outcome. The power of people in invictus. It is the author’s opinion that



people “management” although such a term can be considered as not a politically correct one, can deliver excellent results, and this is why company culture “eats strategy for breakfast” as P. Drucker said once.

According to Andrews, 1971; Ansoff, 1965; Hofer & Schedel, 1978 (cited in Barney J., 1991), firms can obtain the competitive advantage needed by implementing this set of strategies which will be able to exploit their internal strengths, through responding to environmental opportunities, while they will be able to neutralize the potential external threats and avoiding their internal weaknesses.

So, according to the author’s opinion, the above mentioned key resources, one can argued that under a certain prism can be perceived as the result of such internal (i.e. personnel, inventory etc.) and external. information, channels, customers etc.) analysis in order to lead to the required equilibrium which also can lead to sustained competitive advantage thru, always the necessary customer value creation

Also, using an alliance with a competitor to acquire new technologies and skills can be extremely beneficiary and not devious, as some may add (Hamel et al., 1989). This strategic step has as a prerequisite the company’s willingness to learn from their alliances, especially in turbulent and saturated markets. Although such a strategic step in a very important component of the company’s business model, there are several conditions that will permit mutual gain. These according to Hamel et al. (1989), are the following:

- ✓ “The partners’ strategic goals converge while their competitive goals diverse”.
- ✓ “The size of the market power of both partners is modest compared with industry leaders”.
- ✓ “Each partner believes it can learn from the other and at the same time limit access to proprietary skills”. (Hamel et al., 1989).

KEY PROCESSES

Several measures that the company should take such as rules, metrics, norms which can ensure the profitable delivery of the customer value proposition repeatable and scalable (Johnson et al., 2008). These measures, according to Johnson et al. (2008), might include the following:

- ✓ “Processes: design, product development, sourcing, manufacturing, marketing, hiring and training (HR practices), IT”.
- ✓ “Rules and Metrics: margin requirements for investment, credit terms, lead times, supplier terms”.
- ✓ “Norms: opportunity size needed for investment, approach to customers and channels” (Johnson et al., 2008).

Lean is a very crucial process, especially nowadays in such antagonistic and stressful business environments. Companies need to follow Toyota’s lean production system paradigm, with it’s the “just-in-time” method (Ohno, n.d, cited in Karaoulanis, 2015). Ordering from manufacturers just in time for the product quantity needed according to the market needs can be a decisive paragon in order to eliminate wastes, thus decrease costs and increase speed in customer service and quality (Ruffa, 2009). In that way of thinking, going lean can improve operational efficiency (Gulati et al., 2010) something which will lead to revenue and customer value creation, thus a sustainable business model.

This last measure, “approach to customers and channels” is very important as can be an important element of product development. According to Thomke S. et al. (2002). Listening carefully to what customers have to say about the company’s product is a key element in creating the needed customer value. In this way of thinking, many companies did the extra mile and not only proposed but also successfully implemented a new approach which is a much more customer centric one. As R & D has been quite expensive and sometimes inexact also, many companies introduced this radically new approach by giving to their customers the needed tools helping them to re- design or even introduce and develop their own products. This kind of approach is called “customers as innovators” (Thomke S. et al., 2002).

CONCLUSIONS

Creating a sustainable business model is a very complicated and difficult task which mainly involves four parameters as we discussed in the introduction part: Customer value proposition (CVP), the profit formula, key resources, and key processes (Johnson et al., 2008). It is the authors prevalent idea that customer value proposition which involves customer value creation should be the cornerstone upon which the whole business model should be built. Many factors which were examined in this paper can equally contribute in the company’s business model creation, but he bottom line of this analysis is that the most important factor when it comes to business is not to create something that you suppose your customers will need, but to be able to listen to them and create value from them through their value proposition. On the long run this will benefit the company by adding value to its shareholders and all this procedure can only be accomplished via the implementation of the right business model.

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