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Rethinking Your Value Model

(and why it matters)

How does your business deliver value to customers?

In 2015, David Nichols and I thought we could answer that question easily. David ran Loupe, an automation engineering firm; I (Shawn Busse) ran Kinesis, a growth consultancy. By most accounts, business was good: we understood what our firms did well, which clients we should be serving, and what kind of people we wanted on our teams. But one thing we didn't understand? Why the "best practices" touted by business books and podcasts didn't seem to work for us.

Over time, we came to realize the dirty little secret about business advice: It didn't work for us because it wasn't meant for us. In fact, many best practices for business and strategy are based on traditional (read: ancient) frameworks for one industry in particular: manufacturing.

Prevailing 20th century business wisdom would have us believe that the logic of manufacturing can be applied to all industries. This is how we arrived at cookie-cutter best practices like: Cost containment. Risk mitigation. Efficiency optimization. To be sure, if you run a factory, these can be key levers for operational excellence… but not every business is a factory, nor should it operate like one.

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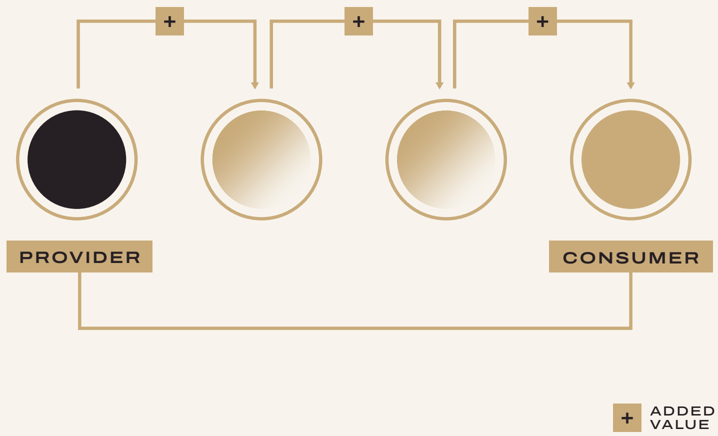
Value models are not one-size-fits-all

How value is created, delivered, and perceived at your company is the foundation upon which any given business strategy is built. We call this your "value model," and it directly informs which strategies will work for you and which will fall flat.

Fortunately, while manufacturing may be the noisiest value model in the zeitgeist, it's hardly the only one to identify with or learn from. In fact, as early as the mid-90s, the factory mindset and its presumed universal application were already being challenged. **This decades-old academic paper** helped me and David understand what our businesses are, what they aren't, and why we spent so many years banging our heads against the wall. It provides a useful framework for understanding other value creation models: Chains, Networks, and Shops.

THE

Value Chain



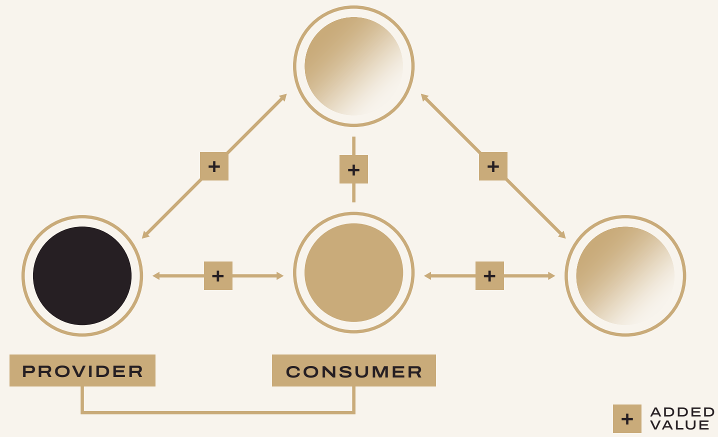
To understand other models, it may be useful to first understand the one familiar to most of us (since it's the one from which all business advice stems). That model, common to manufacturing, is the value chain. In a chain configuration, value is created by transforming inputs (usually raw materials) into outputs (usually products) through a linear sequence of activities. Of course, these chains are often complex, interlinked, and embedded in even larger chains... but in its simplest form, value creation boils down to these inputs and outputs. And in this environment, it makes sense to focus on optimizing the efficiency of each link in the chain. That means reducing costs while maximizing capacity utilization.

Think automotive manufacturing: When a Honda plant in Alabama has to shut down production for an unplanned issue, it literally costs the company **$2mm an hour**. You'd be obsessed with risk mitigation too if that risk was losing $30k for every minute of nonoperation.

But now, try applying that logic to a different kind of business... a bank, for instance. What are the inputs and outputs in that scenario? What are the raw materials? The value chain model starts to fall apart. That's where our next model comes in...

THE

Value Network



In value networks, value is co-created through interactions among different participants in the network. Banks are one example — so are telecoms, transportation, or insurance. Think Amazon or the Apple App Store.

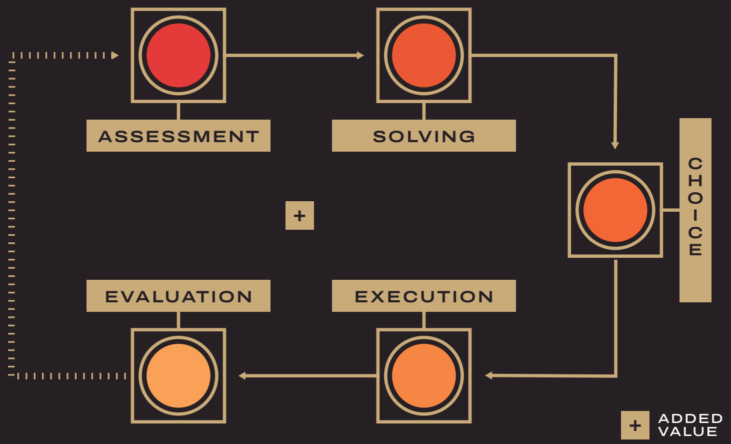
Value network organizations are the mediators. The marketplace. The "club managers." They facilitate relationships between customers, or between buyers and sellers. And instead of sequential activities (a la value chain), that mediation is performed simultaneously and at multiple levels.

In this model, competitive advantage is derived from the ability to manage relationships, share information, and leverage the collective capabilities of the network. And because success lies in the growth of the network (after all, nothing draws a crowd like a crowd), priorities are things like promotion, infrastructure, and scale.

Of course, most of us in the small business world are not attempting to build massive network organizations. Which means if you're anything like Loupe, Kinesis, or many of the companies we work with, you probably belong to a third, unique cohort: the value shop.

THE

Value Shop



Unlike chains or networks, a value shop is in the business of solving problems — or, put another way, helping customers move from a current state to a desired state. The word “shop” even alludes to mechanics, who draw on their expertise to assess problems and provide solutions. Think also: engineering, consulting, medicine, or law.

Every problem is unique, which means the solutions must be too — as such, the value shop tailors its offerings to meet each customer’s needs.

That begins with a complete understanding of the problem, a progression of potential solutions, choice, execution, and evaluation (rinse and repeat as needed).

The customer approaches the shop (the patient confers with the doctor, the plaintiff hires the attorney, etc.) because they can’t solve the problem on their own. The value shop has expertise that the customer does not. The aforementioned academic paper calls this “value information asymmetry” — perhaps the single most important attribute of how shops create value.

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Value chains are great. If you make widgets.

…But most of us don't. Which means unless you operate a factory, most business "best practices" were never meant for you.

For those of us who are value shops (like Loupe and Kinesis), most business advice falls short for companies like ours for good reason: We're not operating with a chain of inputs and outputs. We're also not creating a network of value exchange. So the "tried-and-true" strategies for those kinds of companies (the ones we've spent our whole careers hearing about) simply do not apply.

If (like us) you're not in the business of producing widgets, then lessons from manufacturing will be misleading at best — a recipe for friction throughout the business at worst. For example, key areas like Culture, Business Development, and Brand.

People + Culture

If you're an entrepreneur of the last few decades (and you haven't been living under a rock), chances are you absorbed the message of **Michael Gerber's "E Myth"**: that the secret to scaling a small business is to take a leaf from the McDonald's playbook. Which is to say, a system for everything — how to cook the burgers, how to take an order, how to do inventory, how to staff — in pursuit of a virtually identical experience across 14,000+ US locations.

This way, McDonald's doesn't rely on star employees for their success; the system *is* their star employee. But unlike McDonald's, value shops are not in the business of identical experiences. Every solution is unique — and so value shops *must* rely on employees for their success. Of course, that means equipping them with specific technologies and proprietary approaches... but at the end of the day, you win because of your combination of personnel and expertise.

VALUE CHAIN "BEST PRACTICE"	VALUE SHOP APPROACH
People as Cogs in the Machine	**People as Differentiators**
If you're experiencing these symptoms... ⊗ Difficulty attracting mid-level talent ⊗ High burnout + turnover ⊗ No time for training or internal R&D ⊗ Measuring + managing productivity	**Then these areas might need attention...** ⊕ Employee value proposition ⊕ Recruiting strategy ⊕ Onboarding and training programs ⊕ Career path mapping

Sales + Business Development

In many cases, the value a shop delivers is worth many multiples what the customer pays for it. Consider, for example, **the story of Swiffer**. In 1994, we were all still pushing a heavy bucket and rag mop around the house. That was until Procter & Gamble enlisted the help of Continuum (a design and innovation consultancy) to find a better way to clean floors. They collaborated on a product that combined sweeping and mopping into a single, mess-free chore.

The result of that partnership? About $500mm in sales each year. We don't know how much P&G paid for that advice, but we can be reasonably sure the sum didn't start with "b" — and yet, that's been the cumulative payoff of Continuum's help. The advantage of that kind of asymmetric value is the shop's ability to take risks: by placing small bets where the potential upside far outweighs the potential downside.

VALUE CHAIN "BEST PRACTICE"	VALUE SHOP APPROACH
Cost-Plus Pricing	**Value-Based Pricing**
If you're experiencing these symptoms... ⊗ Unpredictable revenue streams ⊗ Fixed-bid margin compression ⊗ Client concentration risk ⊗ Difficulty demonstrating value ⊗ Feeling underpaid for your expertise	**Then these areas might need attention...** ⊕ Pricing strategy ⊕ Proprietary model + productized services ⊕ Right-fit customer + market diversification ⊕ Sales process + client education ⊕ Value proposition

Brand + Marketing

A value shop's competitive advantage stems from its ability to provide unique and personalized solutions. For that reason, they have greater dependence on reputation, relationships, and referrals... and tend to be frustrated with tactics like digital marketing. (Put another way? Easy problems can be researched on Google. To solve complex problems, buyers turn to their rolodex.)

The double-edged sword of referrals boils down to whether a shop approaches them passively or actively. While passive referrals do tend to produce high-quality leads, they are often limited to your immediate network and dependent on external factors. To combat this, value shops must build an *active* referral strategy focused on what *can* be controlled: relationships, reputation, and brand positioning.

VALUE CHAIN "BEST PRACTICE"	VALUE SHOP APPROACH
Traditional Marketing Channels	**Brand Positioning + Reputation**
If you're experiencing these symptoms... ⊗ Lack of brand recognition ⊗ Difficulty attracting ideal clients ⊗ Disparate tactics with lackluster results ⊗ Feeling like a "best-kept secret"	**Then these areas might need attention...** ⊕ Visual identity + messaging ⊕ Competitive landscape analysis ⊕ Unified marketing strategy ⊕ Referrals + Centers of Influence

The transformative power of the value shop

Understanding these different models (and understanding ourselves as value shops) has allowed us to dismiss so-called “best practices” that weren’t designed for us. Nearly a decade later, Loupe and Kinesis are almost unrecognizable from where they were in 2015:

Once primarily a hardware distributor, **Loupe** was stuck in a value network — beholden to their suppliers, limited by incumbent technology, and risking commoditization. Realizing the benefits of a value shop model, they scaled up the engineering side of their business by developing their own technology and a unique approach to solving problems. Today, they’ve rebranded and repositioned the company to that effect — leading to over 400% growth in just five years. Those services now represent the bulk of their revenue, purchased by a roster of Fortune 50 clients.

After authoring a book on marketing, **Kinesis** faced being pigeonholed into dime-a-dozen transactional marketing activities — which didn’t accurately reflect the exponential impact we had on clients or the holistic approach taken by our team. Understanding ourselves as a value shop enabled us to deepen our client partnerships as a business strategy and growth consultancy. This shift earned us awards for growth and innovation, but — more importantly — opened up new markets, predictable revenue, and long-term client relationships.

If you’re curious about how your firm could benefit from Value Shop thinking, we’d be happy to share our experiences. Reach out to either of us at:

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