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Value Creation and Value Capturing Strategy: A Frame Work of Modern Business Approach

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Abstract:

A successful business model creates a heuristic logic that connects technical potential with the realization of economic value. This article presents some theoretical concepts concerning the value-based management and discusses how value can rapidly migrate from industries and how firms are combating value migration through customer selectivity, technology, adaptive products, economic, financial and distribution. The created value must be priced appropriately and communicated effectively. Organizations that learn to use technology-driven process to enhance customer value will survive in the emerging era. This study shows that the key to value driven strategy is to move away from traditional functional job roles and toward a process of contemporary business model that links the functions in creating value for business operations.

Key words: ***Value creation, Value capturing, Economic Value estimation, Value Added***

Introduction

Value creation is the primary aim of any business entity. Creating value for customers helps sell products and services, while creating value for shareholders, in the form of increases in stock price, insures the future availability of investment capital to fund operations.

Value creation and value capturing have increasingly been targeted in discussions and publications on strategic management. Given the increasing and increasingly fast moving competitive pressures across markets and industries, and the search for renewed economic growth, especially since the financial crisis, the need for re focusing on the creation part of the equation has never been greater and more apparent. The study shown for leading companies across a variety of industries support and illustrate this point as well as the resulting strategic challenge.

The value creation efforts by the new management team were felt across the company as the innovative strategy was effective.With value creation, we can up the value of the company exponentially, thus giving the customer and clients a better value on the products.With value creation, we can up the value of the company exponentially, thus giving the customer and clients a better value on the products.Value creation is the perceived benefit to the customer. This is in line with the microeconomic concept of the utility of a company's offering for its customers, whether it enhances the quality of life for a final consumer and increases the profitability of a company. If a product or service is failing to do so, obviously there is no point in bringing it to the market after all. Offering a useful product or service alone is not sufficient. The pricing and cost structures will have to accommodate sufficient value capturing. The provider has to generate sufficient revenue and profits for its shareholders. If the value created by a private enterprise is not sufficiently captured, there is no long term viability of the offerings us to understand the strategic challenge affecting a company's situation in a given market or industry. The objective of strategic decision making is to realize sustained profits. To achieve this objective, managers must devise ways to *create and capture value.* An essential first step in generating profits is discovering ways to create value. There are at least four general ways that managers can increase value: (1) They can take actions to lower production costs or producer transaction costs. (2) Managers can implement policies to reduce consumer transaction costs. (3) They can adopt strategies to increase demand. Demand might be increased by taking actions to increase perceived quality, lower the price of complements, or increase the price of substitutes. (4) They can devise new products or services. Sometimes more value is created by cooperating with firms than by competing against them. Successful firms find ways to convert ideas and knowledge in their employees' *wetware* into *software*—formulas and recipes for creating value.

Creating value is a necessary first step in making profits. It is also necessary to capture value. A firm may have reduced its transaction/production costs or increased its consumer demand, but if other firms copy these changes quickly and enter the market, the competition will eliminate the profits. The potential for firms to capture value increases with *market power*. Sometimes it also is possible to capture value without market power if the firm has *superior factors of production* that allow it to be more productive than competitors.

Value Creation Strategies

In our process-oriented framework, we have suggested that businesses, by careful resource allocation to selective customer segments, can create value through their technology delivery, product delivery, economic, financial and customer delivery processes. This value creation process enables companies to develop appropriate value-based strategies aimed at select customers. For successful implementation, it is important to have the value creation process in place. As discussed below, some of the popular valuebased strategies require implementation of value creation process. It is important for management to understand the inter-connected nature of technology delivery process, product delivery process, and customer delivery process. Value-Based Pricing.

Review of literature

The first step in achieving an organization-wide focus on value creation understands the sources and drivers of value creation within the industry, company, and marketplace. Understanding what creates value will help managers focus capital and talent on the most profitable opportunities for growth. "If customers value consistent quality and timely delivery, then the skills, systems, and processes that produce and deliver quality products and services are highly valuable to the organization," Robert S. Kaplan and David P. Norton wrote in their book Strategy Maps: Converting Intangible Assets into Tangible Outcomes. "If customers value innovation and high performance, then the skills, systems, and processes that create new products and services with superior functionality take on high value. Consistent alignment of actions and capabilities with the customer value proposition is the core of strategy execution."

1. Bowman and Ambrosini (2000) will be criticized. This article addresses three related issues concerning value and valuable resources: what is value? How is it created? And who captures it? Bowman and Ambrosini (2000) focuses on the impact of value in many different forms that effect a business. It also takes into account the resource-based theory of a firm and argues that the knowledge and value created is the main competitive advantage of a firm in the market place.

2. Amit and Zott (2001) highlight the nuanced distinction between a business model and a revenue model in that a business model is largely concerned with value creation whereas a revenue model is primarily concerned with value capture. Thus, defining a revenue model is imperative.

3. In a recent article Mizik and Jacobson (2003) distinguish between two key value-related activities firms engage in: value creation and value appropriation. Value creation includes activities your firm engages in to create value for the customer, especially new product innovation. Value appropriation includes activities that your firm engages in to capture back some of the value created – for example using price. In this perspective advertising is viewed as an extension of value appropriation that enables the firm to extend the length of time it can earn economic rents from innovation and value creation. For the past several decades value-based

pricing has represented the essence of this view of creating value for customers, and then capturing back some of the value you create. Value-based pricing focuses on the worth of the savings, gains, and benefits customers realize as a result of using your product or service (Nagle and Hogan forthcoming; Forbis and Mehta 1981).

4. The role of firm infra-structure is emphasized in the strategic management literature see, for example, Grant (2005). The common focus on the value capture/profiting from advantages aspect of strategy, underplays the idea that strategy is of essence in increasing efficiency and productivity too, by reducing transaction and production costs and by increasing perceived value by effecting product differentiation – it is, therefore, an important determinant of value creation.

5. More recent works by Teece himself (Teece, 2006), and in Research Policy (2006) both revisiting Teece (1986), are in fact more explicitly couched in 'value capture from value creating advantages' terms – our theme here.

6. Having defined value creation' (Lepak et al. 2007: 182), the authors then proceed to discuss the process of value creation and the mechanisms that allow the creator of value to capture value. Again, value creation is defined in terms of value, but value itself is not defined.

7.. An organisation may buttress their value capture strategy against competitors through capitalising on internal capabilities such as resources, core competencies and culture. Due to the complexity of the rapidly evolving cloud computing value network ecosystems which contain a multitude of actors on different layers of the cloud computing model, further research is required to determine where and how cloud computing value is captured (Böhm et al., 2010).

Research Objectives

Main objectives of the paper is as follows

- ❖ To study the value creation and value capturing strategies of modern business.
- ❖ To know the strategies of value based business operations. .

Methodology

For investigation and acquiring scientific knowledge about any problem situation or subject, the researcher has to make out the methodology of study, which refers to the body of methods or techniques using conducting the study. To make the present study more scientific the following methodology has been adopted.For the present study the methods of research utilized. In historical method it includes personal bulletins, personal policy book records and documents applied by them and the data collected from schedules.

Strategies of value based business operations

Strategy 1: Economic Value estimation: When it is relatively easy to judge differences in brands prior to purchase, and the benefits that buyers seek are primarily economic, the most effective value business strategy is to communicate differential economic value quantitatively. **Strategy 2:** Economic Value Assurance When the cost to ascertain the differences among brands exceeds the benefits for a target segment, economic value alone is unlikely to be sufficient and may be impractical. It is great to tell buyers that a product that could double productivity would be worth a large price premium, but that may not motivate a purchase if they cannot determine before purchase that your product or service can actually enable them to achieve such a gain. Such an economic value assurance strategy involves testimonials from credible experts, opinion leader endorsements from known and trusted sources, and claims of superior market share or repeat purchase frequency – coupled with frequent mentions and connections to your brand name.

Strategy 3: Psychological End-benefit Framing When customers are motivated by psychological benefits such as comfort, pleasure, safety, security, status, companionship, adventure, or fulfillment, it is not possible to define economic value objectively. Even when a low relative cost of search enables customers to recognize differences in product or service features, the psychological value they associate with those features will be subjective. The key to influencing perceived value for such products is to help buyers make connections between the differentiating features they recognize and the possible psychological benefits they could gain. One of the most effective ways to do this is by reframing the way the customer views the product or service differentiation, not in terms of the product's immediate attribute performance but in terms of a possible end-

Strategy 4: Psychological End-Benefit Assurance The most difficult challenge in value communication occurs when the benefits are psychological and, therefore, subjective while the differences among brands are difficult for customers to ascertain. Because comparison is difficult, the risk for customers of making what turns out to be a disappointing purchase decision is high. Consequently, buyers tend to rely heavily on even small amounts of direct experience, on endorsements from people with whom the buyers can identify, and on their prior experience with a brand or brand name.

Relationship between Creating Value and Capturing Value

- The two don't have to be related.
- One can create value without capturing any of it.
- You can't capture value without creating it, but you can capture more value while creating less.
- Human nature often means that there is no incentive to create more value unless one can capture some of the value that is created. Or, people will create more value if they can capture more of the value they create.

Four generic, first-order determinants of value creation

The four determinants are derived from an integration and extension of economics, IO and (strategic) management literature - Other factors or sub factors can affect value creation , through their effect on the four generic, first order determinants

1. Firm Infra-Structure & Strategy
2. Unit Cost Economies/ Increasing Returns
3. Human (and other) Resources
4. Value Added - Creation
5. Technology & Innovativeness

Four major genres of strategies for value capture

Entry Deterrence Strategies

Firm Differentiation – Strategies

Integration, Diversification, Cooperation, Strategies

Generic Strategies.

Value Creation Frameworks

To develop a value-creation strategy, a firm must first identify what points of value their potential customers seek. Next, the firm develops a pre-emptive strategy to provide those benefits (O'Cass and Ngo , 2011).

Value-creation strategies focus on the various dimensions along which customers perceive value. Ulaga (2003) identified eight dimensions of value creation in a business-to-business context: product quality, service support, delivery performance, supplier know-how, time-to-market, personal interaction, price, and process costs. While Ulaga focused on relationship value (i.e., manufacturer-supplier relationships), his eight dimensions also apply to an open source context because most consumers or end-customers of commercial open source software are businesses.

Smith and Colgate (2007) proposed a customer-value creation framework that identifies four main types of value that can be created by organizations:

1. **Functional/instrumental value:** the attributes of the product itself; the extent to which a product is useful and fulfills a customer's desired goals
2. **Experiential/hedonic value:** the extent to which a product creates appropriate experiences, feelings, and emotions for the customer
3. **Symbolic/expressive value:** the extent to which customers attach or associate psychological meaning to a product
4. **Cost/sacrifice value:** the cost or sacrifice that would be associated with the use of the product

Smith and Colgate proposed their framework as a tool for marketing strategists to develop creative product concepts and recognize new product opportunities. The sources of value identified have to be appropriate and applicable to the context in which they are used. Smith and Colgate's value-creation framework must be adapted to the context of open source software because open source is most attractive to businesses and expert users, such as universities and hobbyist programmers (West, 2007). Some components of the framework might not apply in this context. For example, experiential value is more of an individual assessment than a firm-level assessment. Similarly, symbolic value components such as self-identity, personal meaning, and self-expression, would only apply in cases where the end-customer was an individual user.

O'Cass and Ngo (2011) assert that a firm's pre-emptive value-creation strategy is comprised of:

1. **Performance value:** this component is associated with the product attributes and the attributes' performance. This relationship was also noted Woodruff (1997).
2. **Pricing value:** this component can refer to the fair price or the value price. The fair price refers to customers believing they are paying a fair price for a product or service; the value price refers to a price that justifies the benefits of purchasing a product.
3. **Relationship value:** this component refers to the firm's efforts to create and deliver a hassle-free purchase and consumption experience.
4. **Co-creation value:** this component is added when customers find it beneficial to influence various parts of the business system to co-create or co-produce their own unique purchase and consumption experience.

Value Creation in Open Source

Value-creation frameworks and strategies rely on combining the resources and capabilities of a firm. These resources and capabilities are considered to be valuable, rare, inimitable, and non-substitutable because they provide a sustainable competitive advantage for a firm (Landroguez et al., 2011).

Firms that produce open source software and related services do not always rely solely on open source software. They usually combine proprietary and open source offerings and employ hybrid business models to deliver greater value to customers (West, 2003; Bonaccorsi et al., 2006). A network of developers (who may be internal and external to the firm), collaborates to produce open source software. Firms that use open source software as one of their resources to create value for customers can use the attributes of open source software to create a competitive advantage. For example, West (2007) recognizes that firms can create value for customers by providing software at lower prices through the use of open source software as one of their resource components.

In addition to a different value creation strategy for producers of open source software, the impact on customer value perceptions also changes with open source. Customers can engage the open source community, influence the direction of the product offering, and increase their interoperability with other vendors by using the same common open source code base. Customer value perceptions in open source software therefore, will differ from proprietary software because customers derive value along additional dimensions that do not apply in proprietary software development models.

The literature on customer value creation in open source software is still very new and few authors have addressed the creation of value in the open source software development model, with the exception of West (2007) and Morgan and Finnegan (2008).

Conclusion

To summarize and conclude, we claimed that capturing value from value creating advantages such as innovation is an important objective of business strategy of innovation is not the only source of value creation. Firms may wish to capture value from other value creating capabilities, advantages or just ideas o strategy may be a sufficient condition for value capture, even in the absence of innovation. Strategy itself is a firm advantage-value creator, from which value can be captured. Firms use panoply of specific strategies to capture value, all of which also contribute to varying degrees to value creation. o many value capture strategies may be unavailable to some firms, especially when they lack ‘track-record’, and relatively ‘impregnable bases’.

The successful capture of value by firms need not be beneficial for the economy as a whole, for example if it thwarts innovation. Public policies to capture value for a nation may thwart the process of sustainable world-wide value creation, when they hinder knowledge transfer, learning and innovation. Neo-protectionist policies by developed nations are likely to have such effects.

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