Towards an Integrated Perspective of Strategy:
The Value-Process Framework

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Dr. Albrecht Enders

Andreas König

Prof. Dr. Harald Hungenberg

Autoren

Dr. Albrecht Enders
Wissenschaftlicher Assistent am Lehrstuhl für Unternehmensführung an der Friedrich-Alexander Universität Erlangen-Nürnberg

Andreas König, MBA, MMus
Wissenschaftlicher Mitarbeiter am Lehrstuhl für Unternehmensführung an der Friedrich-Alexander Universität Erlangen-Nürnberg

Prof. Dr. Harald Hungenberg
Inhaber des Lehrstuhls für Unternehmensführung an der Friedrich-Alexander Universität Erlangen-Nürnberg und Gastprofessor an der ENPC in Paris. Wissenschaftlicher Leiter des Instituts für Unternehmungsplanung
Summary

The discipline of strategic management has the goal to better understand why companies succeed based on a holistic, overarching perspective. However, until now the strategic management literature has not provided a conceptually unifying framework that explicitly integrates the different dimensions of strategy development. The goal of this paper is to fill this gap by presenting the Value-Process Framework. The contribution of this framework is the integration of the different and separate perspectives of strategy into one consistent, holistic model. The framework can be used (1) to analyze the different levers of competitive advantage, (2) to develop consistent and integrated strategies that simultaneously take into account the internal and external perspectives of strategic decision making, and (3) to communicate these strategies to a wider audience.
1 Introduction

The discipline of strategic management is “devoted to the problems of the company as a whole” (Andrews 1980). While other management disciplines such as marketing or finance look at more specific topics from a focused point of view, strategic management has the goal to better understand why companies succeed based on a holistic, overarching perspective (Hafsi and Thomas, 2005). As Michael Porter (quoted in Argyres and McGahan, 2002) explains: “Unless at some point the company can see the design, see how the pieces fit, and make the interdependent choices consistent, the company is not going to be successful.”

This holistic perspective is also emphasized by the majority of the most widely read text books such as Grant (2002), Besanko et al. (2003), Johnson and Scholes et al. (2005), or Barney and Hesterly (2005). The authors of these books all point out the great importance of demonstrating the interdependencies between the different dimensions in strategy development. However, even though they present important frameworks, such as Porter’s Five Forces for the analysis of the industry structure, the Value Chain for the internal analysis of a company, the Generic Strategies Framework for the analysis of different strategy options (Porter 1990), or the VRIO framework for the analysis of resources and capabilities (Barney and Hesterly, 2005), they do not provide a single conceptually unifying framework that explicitly integrates the results of these analyses.

As a consequence, students and managers who study and apply these frameworks frequently find it difficult to synthesize their findings into a consistent overall strategy. Often we observe, for instance, that even experienced managers are unable to properly connect the analysis of the internal value chain with the analysis of the five forces that shape an industry’s structure. They also have difficulties understanding why a unique strategic positioning is crucial to business success and how this positioning is linked with a company’s internal systems and structures. Furthermore, they do not relate market- and resource perspectives when identifying the strengths and weaknesses of a company, which was originally Andrew’s intention when developing the Strengths-Weaknesses-Opportunities-Threats (SWOT) model (Andrews, 1980).

The goal of this paper is to fill this gap in the strategic management literature by presenting the Value-Process Framework. The contribution of this

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framework is the integration of the different and separate perspectives of strategy into one consistent, holistic model. The framework can be used by managers and management students alike to:

- Highlight and analyze the different levers of competitive advantage;
- Develop consistent and integrated strategies that simultaneously take into account the internal and external perspective of strategic decision making;
- Communicate these strategies to a wider audience through the easily intelligible visualization of the Value-Process Framework.

When developing the Value-Process Framework, we mainly built on the conceptual work by Andrews (1980), Porter (1991), Bowman and Ambrosini (2000) and Besanko et al. (2003). The Strengths-Weaknesses-Opportunities-Threats model developed by Andrews (1980) shows, that when managers develop strategies, they have to take into account the results of the external analysis of markets and competitors and the results of the analysis of internal processes and structures. Porter (1991) develops a concept of strategy, which combines different prevailing schools of theory, including the resource-based and market-based views. Partly building on this notion, Bowman and Ambrosini (2000) develop a conceptual model of the process of value creation and value capture. Besanko et al. (2003) also present a framework of competitive advantage. These authors posit that a company’s benefit and cost positions build the basis for creating value. This value created then has to be captured. As Besanko et al. describe, a company’s ability to capture value, i.e. to achieve economic profitability, is mainly determined by market economics.

The Value-Process Framework incorporates these fundamental ideas by (1) emphasizing the importance of connecting the internal activities of a company and the external competitive environment, which are both constituting factors of sustained competitive advantage, (2) analytically separating the two steps of value creation and value capturing and thereby (3) providing a dynamic process perspective of competitive advantage which highlights that continuously high levels of value creation are not sufficient conditions for profitability unless a company is also able to sustainably capture this value by defending it from competitors (Porter, 1991).

When developing the Value-Process Framework, we particularly strived for applicability, comprehensiveness and easy visualization. In doing so, we also addressed some of the limitations of the existing strategy frameworks. The SWOT Matrix (Andrews, 1980), for instance, points out that managers need to

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2 See also Jelassi and Enders (2005), and Enders and König (2005).
analyze a company’s strengths, weaknesses, and its surrounding opportunities and threats. Yet, it does not help them to decide what exactly constitutes the strengths, weaknesses, opportunities and threats of their companies. This lack of clear decision criteria frequently results in questionable conclusions, for instance, when resources are classified as strengths even though they neither create value nor help a company to differentiate itself from its competition. We hope that applying the Value-Process Framework will allow students and managers to determine more precisely when resources are strengths or weaknesses and to answer the question, why external influences constitute potential opportunities or threats.

The Value-Process Framework also strives to provide a more overarching perspective than other analysis tools such as the VRIO framework (Barney and Hesterley, 2005) that focuses on four questions dealing with value, rarity, imitability and organization but fails to link these different areas of analysis. In addition, the Value-Process Framework provides more detail than other frameworks (Besanko et al., 2003; Walker, 2004), which do not discuss how the value that a company creates is split up between a company and its customers. Finally, the structured visualization should make the Value-Process Framework more useful for teaching purposes than those frameworks (e.g., Bowmann and Ambrosini, 2000) that do not emphasize visualizations of their key findings.

This article is divided into five sections. Following the introduction, Section 2 explains the main elements of the Value-Process Framework in general terms. Section 3 shows how the Value-Process Framework can contribute to create an overarching perspective of strategic management. We illustrate this by demonstrating how three of Michael Porter’s most widely-used strategy frameworks fit into the value process. Section 4 summarizes the key implications of the framework. Section 5 discusses the limitations of the model and provides an outlook for further research.

2 The Value-Process Framework: Creating and Capturing Value

The concept of value creation and capturing is at the core of strategic management, since superior value creation vis-à-vis rivals and the ability to capture parts of this value in the form of profits are prerequisites for building competitive advantage. Competitive advantage is the basis for reaching the fundamental goal of a company: long-term sustainable success (Porter 1990). Building on the two concepts of value creation and value capturing, the following sections outline the main elements of the Value-Process Framework.  

In order to simplify the model, we use the example of a single consumer with an unlimited spending budget.
2.1 Creating Value

Value created is the difference between a customer’s perceived use value from a given product⁴ and the firm’s cost for providing that product. The relationship between these terms is shown in Exhibit 1.

Exhibit 1: Value creation is a necessary condition for building competitive advantage

At this point, it is important to clarify the definition of value within the context of this framework. Previous definitions of the term, even by important strategy scholars, have frequently been somewhat imprecise. For instance, when Porter (1985) states that “value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits” he subsumes the similar yet conceptually distinct concepts of perceived use value and consumer surplus in one term. These imprecise definitions in turn make it difficult to disentangle the conceptual ideas of value creation and value capturing, which, to our minds, are constitutive for the understanding of competitive advantage.

According to Bowman and Ambrosini (2000), perceived use value is defined as “a price that a customer is prepared to pay for the product if there is a single source of supply”. Important categories for the creation of use value are quality, speed and brand (Hungenberg, 2004). Quality includes product characteristics such as functionality, durability and reliability. Speed refers to how fast a company can deliver a given product. Brand entails the perceived traits that consumers associate with the product or its producer, including trust

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⁴ In the context of this paper, we use the term product to include both goods and services.
and the emotional benefit derived from a product. Here, it is important to notice that the perceived use value depends entirely on the individual customer’s subjective perception. Each customer will perceive the use value of a given product differently depending on factors such as gender, age, or cultural background.

The second dimension that drives value creation entails costs. These include (1) the costs for the purchase of resources (labor, material, information and capital), (2) the costs for the recombination of resources in the processes of production, marketing and delivery, and (3) the costs for selling the product (Porter, 1979; Wernerfelt, 1984; Coase 1937; Mizik and Jacobson, 2003; regarding the role of capital as resource in the value process see also Bowman and Ambrosini, 2000).

Creating value that is positive is a first necessary condition for building competitive advantage. As we describe below, in order to capture parts of this value created, it must also be larger than the value created by competitors, and it must be imperfectly imitable and substitutable (Barney, 1991).

2.2 Capturing Value

Value creation by itself does not provide any information about how the value is distributed between consumers and producers. Porter (1991) emphasizes this point when he states that “satisfying buyer needs may be a prerequisite for industry profitability, but in itself it is not sufficient”.

Instead, in order to succeed, a firm must not only be able to create superior value over a sustained period of time, but it must also be able to capture the value created in form of economic profits (producer surplus). Porter states that “if profitability is the firm’s foremost goal, [strategic] positioning must start with price and cost” (quoted in Argyres and McGahan, 2003).

In the terminology of the Value-Process Framework, the value captured, or producer surplus, is the difference between the price charged for the good and the incurred costs. In general terms, the consumer surplus is the difference between perceived use value and price as is shown in Exhibit 2. Thus, the goal of strategic management is to help managers (1) to maximize the value created by increasing the perceived use value and by minimizing the costs of providing this use value, (2) to capture as much of the value created as possible in form of producer surplus, and (3) to do so sustainably over an extended period of time by defending the company’s position against imitators and substitutes.

At this point of the analysis, it also becomes clear that the term “superior value” as it is used by Porter (1985) should more concisely be called superior consumer surplus, since it refers to the difference between the use value and the price paid. This conceptual clarification is of fundamental importance when
The Value-Process Framework distinguishes between value creation and value capturing.

Exhibit 2: The goal of strategic management is to sustainably maximize the value created and captured.

When determining the levels of value creation and value capturing, it is helpful to differentiate between a monopolistic and a competitive environment. In a monopolistic environment, the framework is the most basic. Here, the use value, as it is perceived by the customer, represents the maximum amount a customer is willing to pay for a product. In a perfectly monopolistic environment, producers are able to (almost) completely capture this value created provided (a) there is no other source of supply and (b) they are able to price discriminate. In a quasi-monopolistic environment, a company has less ability to price differentiate. As a consequence, consumers are able to capture a part of the value created in form of consumer surplus (see Exhibit 3). In order to minimize this reduction of the producer surplus, firms need to know their customers and must try to exploit price discrimination opportunities as much as possible.

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5 This means that a company knows the maximum amount the customer is willing to pay, which entails that it can set a price which is only marginally lower than the customer’s perceived use value and the customer would still be willing to purchase.
In reality, however, companies usually operate in a non-monopolistic environment where the consumer surplus provided by the competing players determines the choice of customers. This has complex implications for the company’s ability to capture the value it creates. Conceptually, the willingness to pay is reduced by the amount of consumer surplus offered by the best competitor or substitute.

We use the hypothetical example of two companies A and B, which are competing in the same industry, to illustrate this point (see Exhibit 4). If a competitor of Company A offers a product with a high perceived use value at a low price, thereby generating high potential consumer surplus, a given customer will only consider purchasing Company A’s product if the consumer surplus provided by it is either equally high or higher. We call this reduction in willingness to pay competitive discount.
Exhibit 4: The competitive discount is equal to the consumer surplus provided by the best competitor

In our example, Company A provides a use value of €20 for a given consumer. Production costs and other costs, including marketing and overhead, amount to €12. The value created is thus €8 (step one in Exhibit 4). The competitive discount is then determined by the value creation and capturing by the best competitor. As is shown in step two of Exhibit 4, Company A’s best competitor creates a value of €5 by producing a perceived use value of €20 at costs of €15. As demonstrated in step three, the best competitor sells its product for €19, thereby creating a consumer surplus of one Euro.

The crucial point of this analysis is that as a result of the competitor’s offering, Company A will no longer be able to raise its price to the level of perceived use value. Instead, the maximum value that can be captured needs to be reduced by the amount of consumer surplus offered by the best competitor. As is shown in step four in Exhibit 4, Company A now needs to charge a price that is at least marginally lower than €19. If it charged more, the consumer surplus would drop below one Euro thereby enticing the consumer to switch to the competitor’s offering that provides a higher consumer surplus.

In industries with highly intense competition such as the PC industry, the competitive discount might even increase to the point where it is equal to the entire value created by the best competitor. In our example Company B would decrease the price in order to compete with Company A until it reaches a level of €15. Company B would not be able to lower the price beyond this level, since at any price below this amount it would not be able to cover the incurred costs. This is the reason why companies can only compete successfully if their value created is larger than that of competitors.
As is the case in monopolistic circumstances, companies operating in non-monopolistic environments are also unable to price their products according to the willingness to pay of each customer, thereby preventing them from converting all of the value created into profits (producer surplus). Exhibit 5 summarizes the key steps of the completed Value-Process Framework in one diagram.

Exhibit 5: The Value-Process Framework

Although it was only possible to briefly outline the main dimensions of the Value-Process Framework in this article, this overview allows us to gain an overarching understanding of what constitutes competitive advantage.

As stated above, as a first necessary condition, a company must create value. Only if this value is greater than the value created by the best competitor, however, the company has the opportunity to provide a higher consumer surplus to customers while still being able to capture value itself in form of economic profits (or producer surplus).

Furthermore, in order to limit the size of the competitive discount as depicted by the arrow in Exhibit 5, the consumer surplus, i.e. the “value for money” a company offers, needs to be unique. This uniqueness can be achieved, for instance, through exceptional quality, a strong brand image or fast time to market. Only uniqueness leads to a reduction in the number of competitors, which in turn also limits the maximum consumer surplus offered elsewhere.

In order to sustain the competitive advantage into the future, it is also important that this surplus offered to the customers be imperfectly imitable or substitutable (Barney, 1991; Peteraf, 1993; Bowman and Ambrosini, 2000).

Finally, a company also needs to have the appropriate mechanisms to determine as well as possible each customer’s individual willingness to pay and
to set prices accordingly. The fashion industry is one example where this mechanism is implemented through different types of retail outlets. While customers with a high willingness to pay are served through high-street stores that offer the latest brand name collections, more price sensitive customers are channeled to outlet stores that sell last year’s collections in less central locations.

3 Integrating Managerial Frameworks of Strategic Management through the Value-Process Framework

Building on the Value-Process Framework, the aim of the following sections is to integrate the insights of the existing frameworks in strategic management by analyzing their various interdependencies. We illustrate the integrative power of the value-process using three of the most widely-used strategy frameworks: the model of the Generic Strategies, the Value Chain framework and the Five-Forces framework (see Exhibit 6).

Exhibit 6: The Value-Process Framework integrates different strategy frameworks

3.1 Generic Strategies and the Value Process

The generic strategies framework (Porter, 1990) outlines the generic strategy options that a company can pursue, i.e. cost leadership or differentiation. As Porter (1990) points out, firm profitability can be decomposed into a positioning effect, on the one hand, which determines the type and the level of the value created, and an industry effect, on the other
hand, which determines the level of the competitive discount.

Depending on the strategy type chosen, the value created will either mainly be driven by low costs or high perceived use value. Conceptually speaking, a company pursuing a low-cost strategy focuses primarily on having the lowest cost position in relation to other competitors while still offering acceptable, albeit not necessarily the same levels of perceived use value (as is shown in Exhibit 7 on the left). This, in turn, opens up the opportunity to increase the consumer surplus by lowering prices, as is shown by the shaded area in the bar diagrams, thereby creating competitive advantage. The logic of a differentiation strategy is similar to a cost-leadership strategy with the distinction that its focus lies in increasing perceived use value while simultaneously maintaining a competitive cost position (see center of Exhibit 7).

In more recent publications, Porter’s concept of the generic strategies has been challenged by numerous empirically based studies (see Fleck 1995). A main conclusion of these analyses is that, in reality, companies can also combine both types of advantage, i.e. a cost and a differentiation advantage, following a so called “outpacing” strategy. For example, one possible source for an outpacing advantage is quality management. This can be demonstrated using the example of Toyota. On the one hand, the Toyota Production System (Ohno, 1995) increases the perceived use value of Toyota’s cars, since, for the past decade they have proven to be more reliable and functional than the products of most other car manufacturers. On the other hand, the high reliability that guarantees high levels of use value also helps to improve Toyota’s cost position by reducing the number of expensive call backs.

Exhibit 7: Explaining the logic of generic strategies using the Value-Process Framework

3.2 The Value-Chain Framework and the Value Process

The value-chain framework (Porter, 1980) helps to address the question of
how value is created within a company. It does so by disaggregating a company into strategically relevant and interrelated activities. Within the context of the Value-Process Framework, the value chain primarily helps to analyze the left-hand side of the value process, namely the interaction between perceived use value and the cost dimensions. In essence, the internal value chain of a company revolves around value creation, where value is created during the individual activities in the value chain (see Exhibit 8).

Porter argues that, in order to reach this aim, the activities in the value chain should be consistent, reinforcing and optimized (Porter, 1990). The left-hand side of the Value-Process Framework helps to understand how these three conceptual levers, which are explained in more detail below, drive value creation and positioning.

![Exhibit 8: Value creation and the internal value chain](image)

### 3.2.1 Consistency

Consistency ensures that individual activities with their respective advantages build on each other instead of canceling themselves out. In the terminology of the Value-Process Framework, this implies that value creation within the value chain should either be driven mainly by an increase of perceived use value or a decrease of costs.

If a company’s goal is to provide superior use value to its customers, it needs to design activities such that each activity adds to the differentiation advantage, i.e. increase use value and create uniqueness. On the other hand, if the goal is to be a low cost provider, then costs of each activity should be kept
to a minimum, while still maintaining the threshold features that are required to stay in the market (see also section 3.1.3). Lack of consistency dilutes the positioning of a company.

The need for consistency emphasizes the requirement that strategy is not just about deciding which activities a company should perform but also, and equally importantly, which activities not to perform. If a company wants to be everything to everyone, it runs the risk of not being able to do anything better than the competition and will end up being 'stuck in the middle', where it has neither a cost nor a differentiation advantage vis-à-vis the competition. Porter (1996) argues that strategic positions are not sustainable if there are no trade-offs with other positions. If a company wants to provide superior use value, this usually entails higher costs, while the desire for lower costs usually results in a decrease of use value for customers.

The European low cost airline easyJet.com is a good example of a company that is continuously striving for consistency across different activities of its value chain. To minimize costs, easyJet.com foregoes many of the features, frills and perks that are offered by traditional airlines. While the latter rely heavily on expensive ticketing offices and sales agencies, easyJet.com sells almost solely through the Internet. Furthermore, customers do not receive printed tickets. Instead, upon arrival at the airport’s check-in counter, they receive their boarding pass following passport identification. On board, passengers are not offered free meals and drinks; instead they have to pay for each drink or snack. Finally, after landing, planes are turned around much faster than the industry average which helps to reduce standing fees and increase capacity utilization.

### 3.2.2 Reinforcement of activities

Reinforcement is the second important characteristic of a good fit between the different activities of a company. Its underlying thinking is that competitive advantage comes as a result of how some activities influence the quality of other activities to create higher quality in products or service, thereby increasing the use value for customers. As emphasized above, in terms of the value framework, this implies that the total value created throughout the value chain is larger than the sum of the value created in the individual steps of the value chain.

For instance, if a company has a highly motivated and skilled sales force, it is much more effective if the company also has excellent R&D and production facilities to produce a high-quality product. Similarly, a sophisticated website, such as the one of Amazon.com, becomes more valuable when it is combined with a warehouse system that allows for fast, reliable and efficient deliveries.
3.2.3 Optimization of efforts

The third characteristic of a good fit is the optimization of efforts. While reinforcement primarily focuses on improving the customer experience by linking up separate activities, optimization emphasizes the importance of cost reduction through the elimination of redundancy and wasted activity. For instance, Internet companies that have optimized their order-taking process can reduce their costs for truck fleet and personnel. Dell currently presents the best practice in optimization of efforts. Activities such as sourcing, production, sales and service are connected in such a way as to minimize costs while still providing superior customer benefits. Within the value framework, optimization of efforts implies that the cost reduction in one area of the value chain leads to cost reductions in other parts of the value chain as well.

Creating fit between activities through consistency, reinforcement and optimization connects the conceptual act of strategy formulation to operational implementation issues, which determine how to choose and structure a company's activities. The Value-Process Framework helps to conceptualize this leap from broad strategy formulation, e.g. the low-cost positioning of easyJet.com, to the actual implementation throughout the different steps of the value chain.

3.3 The Five-Forces Framework and the Value Process

After discussing value-creation, which is conceptualized using the value chain, we now focus on the value-capturing dimension of the Value-Process Framework using the Five-Forces Framework. Conceptually, if, on the one hand, a company can charge high prices for its products or services, it captures large parts of the value it creates. If, on the other hand, prices are driven down by competition, consumers will capture most of the value.

The purpose of the Five-Forces Framework (Porter, 1979) is to determine the attractiveness of an industry by analyzing the power of the different actors. The five forces include (1) the competition within the industry, (2) the barriers to entry, (3) the bargaining power of customers, (4) the threat of substitutes, and (5) the bargaining power of suppliers. Particularly the first four factors determine the competitive discount as illustrated by the upper arrows in Exhibit 9. As the different actors’ power increases, so does the competitive discount, thereby lowering the customer’s willingness to pay. The bargaining power of suppliers mainly influences the cost position and thereby the value creation of a company, which is illustrated by the lower arrow in Exhibit 9.6

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6 In fact, the behavior of suppliers also affects the competitive discount. For example, the better the relation of a supplier is with a competitor the lower will be the competitor’s cost position. Accordingly, the value created by the competitor and, as a consequence, the competitive discount will be larger.
This highlights the fact that profitability depends not only on the internal activities of a company but also on its surroundings; i.e., the industry it competes in.

One of the primary goals of the Value-Process Framework is to integrate this external industry-attractiveness perspective with the internal company perspective. Industries with highly intense competition, low entrance barriers and readily available substitutes are likely to have higher competitive discounts. Thus, even though companies in these industries might create high levels of value, either through low costs or high perceived use value, they can still only capture a fraction of this value in the form of profits.

The PC industry provides an illustrative example of the importance of industry structure. During the past decades, it has created immense levels of benefit for consumers as PC capabilities have increased multifold every year. While benefits to consumers have increased, prices have not risen; instead, they have actually significantly decreased over time. As a result, most PC manufacturers such as IBM or HP, with the notable exception of Dell, were facing persistently low profit margins. Due to its unique built-to-order system that does not rely on physical dealerships, Dell was able to provide equal or even higher levels of use value than competitors while keeping down costs. By addressing both the use value and the cost levers successfully, the overall level of value created was significantly higher than that of competitors. As a result, in spite of the intensely competitive industry structure, Dell was able to offer its products at highly competitive prices while still maintaining healthy margins.

At the same time, there are industries such as software development where companies such as Microsoft have been able to capture large parts of the value they create (e.g., for computer operating systems), thus turning Microsoft into
one of the most profitable companies in the world. As software development moves increasingly to non-proprietary web-based standards, though, the hitherto privileged position of Microsoft will also be threatened.

4 Implications

This article started out by showing that the strategic management literature has so far not provided a conceptually integrated perspective of strategic management that explicitly interlinks the different steps leading to superior profitability. Addressing this gap, the article presented the Value-Process Framework that conceptually integrates the previously separated key steps of strategy formulation: value creation and value capturing.

When business students and practicing managers analyze business situations, the Value-Process Framework will hopefully serve them as a conceptually unifying analysis tool that outlines the main drivers of competitive advantage. Generally speaking, the Value-Process Framework emphasizes through its visual presentation that in order to succeed companies necessarily need to create and capture value. In particular, when analyzing and developing business strategies students and managers need to remember the following key points:

- Value creation and capturing are ultimately the only two levers of strategic management. All other concepts in the field of strategic management serve to address one or both of these two core dimensions (see for example Flamholtz and Hua, 2003);
- When creating value, a company needs to focus on use value as it is perceived by customers. Only value that is considered as such by customers will eventually translate into value created (see also Hax and Wilde, 2001);
- In order to maximize the value created, a company needs to optimize the trade-off between perceived use value and costs. Both increasing use value without adequately considering costs or reducing costs without considering the impact on use value will in all likelihood reduce the value created;
- In order to be competitive, a company needs to ensure that the value it creates is at least as high as or higher than the value created by other companies in the industry. Otherwise, competitors offering higher levels of value created will be in a position to either undercut prices while still maintaining healthy margins or to provide higher levels of consumer surplus at similar prices. Both scenarios will severely undermine profitability;
- In order to sustain a competitive advantage into the future, a company needs to ensure that its value created is difficult to substitute or imitate, since only value created that can be shielded against current and future competitors will ultimately lead to
sustainable high profitability.

At this point, it is important to emphasize that the Value-Process Framework does not only serve to make decisions at the product level. It also helps to address strategic questions at the business unit or corporate level, concerning e.g. outsourcing, diversification or mergers and acquisitions. Whenever managers contemplate, for instance, the introduction of a new product line or the outsourcing of a business process to an external provider, they should analyze how these decisions impact the value that is being created and the ability of their company to capture this value. In many cases, outsourcing might lead to initial cost reductions, thereby increasing the value created. Yet, if key know-how is passed on to suppliers that also work with competitors, this might in turn lead to an increased competitive discount which will then lower overall profitability. The purpose of the Value-Process Framework is to make these interdependencies and trade-offs visible and to identify the levers that help to create sustainable competitive advantage.

5 Limitations and Outlook

As is the case with most conceptual frameworks, there are a number of limitations associated with the Value-Process Framework. First, even though the framework outlines the main drivers of competitive advantage, it does not provide any guidance regarding their operationalization. For instance, constructs such as perceived use value or competitive discount can easily be grasped conceptually, yet they are difficult to quantify. Besanko et al. (2003) suggest a number of methods such as Conjoint Analysis, the Attribute Rating Method, Hedonic Pricing Analysis and the Reservation Price Method that can be used to estimate the perceived use value of goods and the competitive discount.

Second, at this stage of the development of the framework, some key variables have not yet been included. Most notably, the quantity of goods sold has been left out, a dimension which is crucial to explain the success of a cost leadership strategy where profits are not driven by high margins but rather by large quantities as shown by companies such as WalMart. Even though it is possible to include this third dimension in the model, we decided not to do so in order to limit the complexity of the framework.

Third, based on the strategy definitions of a number of important scholars such as Porter (1990) or Besanko et al. (2003), the framework emphasizes the importance of profitability as ultimate goal of strategy. However, we do acknowledge that there are also other approaches in the literature of strategic management that take a much broader view of strategy. Most importantly, these perspectives also include other stakeholders such as employees or the external community surrounding a company (Hungenberg, 2004).
Regarding further applications of the Value-Process Framework, throughout this article we have focused mainly on the managerial implications of the framework. However, we contend that the framework also has relevant implications for research in the academic realm. In particular, by visualizing the differentiation between value creation and capturing, the Value-Process Framework implicitly integrates these two hitherto competing perspectives. As Bowmann and Ambrosini (2000) point out, each of the two views puts the emphasis on a different side of the value process: “...We can see that each approach explains half of the story of profit differences. Resource-based theory explains the source of the company’s ability to bargain with customers from a positional strength, which derives from the company’s ability to offer superior consumer surplus. IO theorizing explains how this bargaining strength possessed by the company influences value capture.” We hope that through the Value-Process Framework business students, managers and academics alike will gain an improved understanding of the interdependencies between these different perspectives.
References


