How Value Propositions De-Value

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Do product life cycles completely explain why value propositions eventually lose their luster in the eyes of customers? Why do large organizations, which consume the lion's share of marketing research studies, regularly lose their footing? Could it be that all that marketing research only nibbles around the edges of much more profound challenges?

We spent part of an afternoon comparing how many Fortune 500 companies in 1979 were still on the list in 1989. We found that 46% sank below the top 500 or had been acquired. That's nearly half the Fortune 500 displaced in just ten years. If these companies had refreshed their value propositions in accordance with shifts in their marketplaces, would more of them have sustained their positions? It's reasonable to surmise that bigger doesn't mean better.

We tapped into the thinking of leading organizational consultants and learned that the seeds of value proposition devaluation are frequently sown during periods of organizational growth. To orient new hires, as well as keep an ever-larger group of employees marching in the same direction, a growing organization formalizes the assumptions, policies, rules and rewards that guide employees' behaviors.

Employees' notions of who customers are, what the organization provides, and each employee's role in delivering it is shaped by these rules and assumptions. These help keep things running efficiently and are desirable.

However, value propositions start devaluing when people in authority fail to rigorously challenge these rules and assumptions. This happens frequently in organizations that do not have robust mechanisms in place for regularly re-evaluating the status quo and testing value proposition alternatives. Intelligence generated from marketing research and other sources is often narrowly focused on the organization's customary markets and products. It doesn't generate sufficient intelligence on significant, sometimes even disruptive events outside the organization's myopic view.

Many organizations rely upon their sales people for market intelligence. Due to sales peoples' daily contact with customers, this makes sense, at least on the surface. We often hear from top sales people, "I know my customers". We believe they do.

However, a sales force isn't tooled to produce the *breadth or depth* of intelligence most organizations require to manage the market-perceived value of their value propositions. Most sales people can detect shifts in *their customers'* preferences, but they can't reliably measure shifts in an entire market, which includes potential adopters, competitors' customers, recent defectors and all current customers. Over reliance on sales people for market intelligence causes many organizations to get bogged down.

These organizations often react to nearly every idea sales people bring them.... In one instance, this resulted in a financial services company building more than 400 loan products, even though it regularly sold only twelve. This was quite costly and did not materially support the company's mission or expressed value proposition (which was not based on having the most products, but was based on providing a flawless customer service experience).

It's tough to recover from value proposition devaluation. As customer defections, product failures and losses signal that the organization is in trouble, managers often react to the news defensively. When the organization's poor performance is discussed, managers frequently defer to the authority of senior leaders and the rules of the organization. Sometimes, senior leaders transmit the message (literally or figuratively), "Our strategy has always worked before. If only you *executed* it better, things would be just fine."

Under these conditions, effective innovation is difficult. Managers can react defensively or with open hostility to constructive assessments of what is working and what is not. Roger Martin observes, "…people in corporate crisis are in no frame of mind to learn new facts of life, which is just what they need to do."[1]

The Catch-22 of Playing Catch Up

One reason why organizations find themselves lagging behind competitors is, when times were good, managers reacted to suggestions that the company learn more about its markets with indifference, "Everything's going fine…I've got plenty to do without taking on a marketing research project." In the eyes of managers pressed to "do their jobs", keeping tabs on the marketplace is often regarded as a distraction.

When it becomes evident that the organization's performance is lagging, managers feel the pressure to improve performance quickly. We've observed organizations hastily commission "silver bullet" marketing research studies in a weak attempt to catch up to competitors who have been monitoring market conditions closely for months or years. Even if managers gain any useful intelligence from this panic mode of research, they typically have little practice or time get their organizations re-aligned. In the short-term, these organizations usually fail to improve much other than window dressing on product

[1] Adapted from Martin, Roger, "Changing the Mind of the Corporation", in *Harvard Business Review on Change*, Harvard Business School Press, 1998, pp. 113-138.

brochures and customer satisfaction credos. They face a long-term effort…and their competitors have a big head start.

Conclusion

To perform consistently well over the long-term, large organizations would do well to sustain rigorous market intelligence that enables deliberate challenges to the status quo.

Getting smart about sustaining the value of your value proposition isn't something for which you can cram the night before.