Time To Revisit Value Migration

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Analyzing value stages and types of value.

Adrian Slywotzky created a business model that has lasted longer than its introduction in 1996 in the book, "Value Migration - How to Think Several Moves Ahead of the Competition."

Slywotzky defines Value Migration, Marketing and Marketing Strategy, prior to discussing the elements of Value Migration.

In marketing, he says, value migration is the shifting of value-creating forces. Value migrates from outmoded business models to business designs that are better able to satisfy customers' priorities.

Slywotzky defines Marketing Strategy as the art of creating value for the customer. The caveat here he says of creating value for the customer, can only be done by offering a product or service that corresponds to customer needs. Slywotzky made a statement that was true in 1996 and has been proven even more so in 2012. "In a fast changing business environment, the factors that determine value are constantly changing."

In the Slywotzky model there are three types and three stages of Value:

Three Types of Value

- Value flows between industries. Example: from airlines to entertainment.
- Value flows between companies. Example: from Corel WordPerfect to Microsoft.
- Value flows between business designs within a company. Example: from IBM mainframe computers to IBM PC's with system integration.

Three Stages of Value

- Value inflow stage. Value is absorbed from other companies or industries.
- Value stability stage. Competitive equilibrium with stable market shares and stable profit margins.
- Value outflow stage. Companies lose value to other parts of the industry - reduced profit margins - loss of market share - outflow of talent and other resources.

In dealing with Value Migration in this article we will address only one type when considering the Three Stages of Value and that is the way value flows between companies. Further, there are two key differentiators in a business: business technologies and business design. An example of business design differentiator would be United Airlines and Southwest. In Table 1. we have the same industry and same technology but two radically different business designs.

Another example of business design differentiation is the auto industry model comparing the traditional U.S. industry to the Toyota success model seen in Table 2.

In the two business design examples above the "old" models were forced to change their model to something else to compete. Being slow to change both United and Traditional Auto suffered share loss to Southwest and Toy-

	United	Southwest
Key Elements	• Hub & Spoke • High, fixed costs • Dominate hub	• Point-to-point • Low, flexible costs • Dominate route
Key Assumptions	• Scale reduces cost	• City-pair demand is sufficient operate without hub

Table 1. United vs. Southwest

	Traditional Auto	Toyota
Key Elements	• Product focus • Rigid manufacturing system • Backward integration	• Customer-focus • Flexible manufacturing & selling • Specialization
Key Assumptions	• Technology & Scale drive success • "There is only one way to do business"	• Customer understanding & business design drive success • Innovation improvement is possible

Table 2. Traditional Auto vs. Toyota

ota, respectively during this changeover time gap.

Business technologies is another important differentiator and possible disruptor to consider and it's one that the paint and coatings industry uses more often than we do business design. In Chart 1: The Three Stages of Value Shift, we took the Slywotzky Flow Chart and plugged in some of the familiar technologies in the coatings and adhesives industries.

Within this chart space we can see just a few examples of Business Technologies in our industry. When considering the Value Inflow sector to the left we can understand that successful technologies such as ultra-thin, porosity filling, quick curing semi-structural nano-coatings will initially enjoy limited competition, high growth and exceptionally high profits. This was and is also the case for PPG's PowerPrime 2- Coat Auto E-Coat system that replaced a significant portion of the labor content in some auto plants by, in many cases, displacing itself in the process.

We can also observe that E-Coat in non-auto applications has shifted (right) into the Value Stability sector but, is on the far right portion. This shows that competition is getting stronger, while margins and market shares are stable for the time being. Note that coil coatings occupy a precarious position, teetering on the edge of the Value Stability/ Value Outflow sectors.

The Value Outflow sector is where talent, resources, and customers leave at an accelerating rate. Such is the case for several technologies. Powder coatings, one-coat E-Coat and Auto Sealants are examples of such technologies that are far into the mature range of the Life Cycle accompanied by all the negative trappings such as extremes in low margins, great numbers of competitors, slow to no growth, and new technologies replacing them.

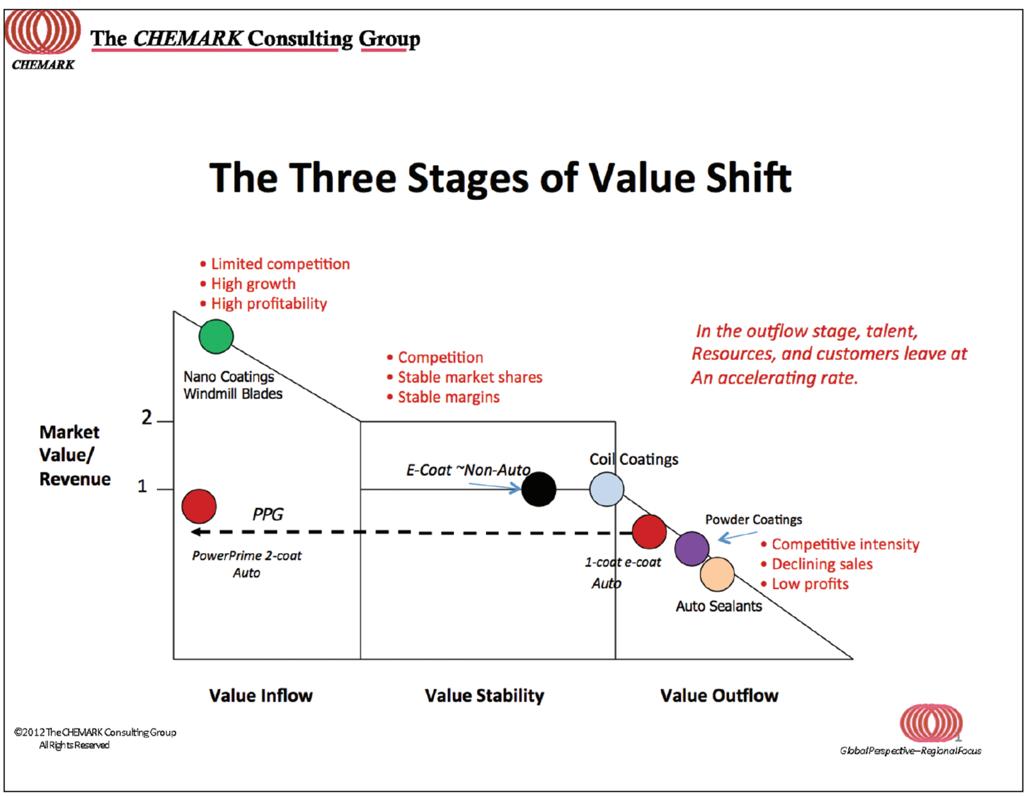

Chart 1: The Three Stages of Value Shift

This Value Shift approach and other models can be tools to quickly understand where you and your competition fits within the market spaces you covet and more importantly, help you see the dynamic potential shifts and movements within it. By mapping out the potential shifts, one can then develop several strategies and sometimes tactics that will both counter competitors and compliment your own advancements.

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