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Aligning value propositions in supply chains

Abstract: Despite the plethora of studies on value that have been undertaken to date, organisations still fail in identifying their value offers, particularly in aligning their resources and capabilities towards their value creation processes in their supply chains. This research proposes a new framework on value creation: ‘the value matrix’. The value matrix through its six value propositions provides a comprehensive framework to understand how different organisations within a supply chain create value. It explores value creation from both the organisational and customer perspectives. A constructive research approach through an in-depth case study on the fashion industry demonstrates that 1) the value propositions of key members of the supply chain should be aligned to enhance the value proposition of the entire supply chain. 2) Other members which are not strategic members of the supply chain can have different value propositions. This paper finishes with describing an agenda for further research and an agenda for changing how we design and operate supply chains.

Keywords: value creation, value propositions value management and supply chain.

1 Introduction

The intense globalisation and communication of markets have made customers more aware and demanding. Current businesses are not just competing on price, quality or service, but on other dimensions that did not exist two decades ago. To cope with customers’ demands, organisations are re-defining their value offers and joining collaborative efforts with suppliers to create distinctive competitive advantages. Hence, managing value on supply chains has become critical for survival and growth of organisations.

Despite the plethora of studies on value that have been undertaken to date, our exploratory analysis found that organisations are still failing to identify their value propositions, particularly in aligning their resources and capabilities with their value creation processes in their supply chains. Hence, the aim of this paper is to analyse the value creation processes in supply chains. In particular, to understand the value propositions of different members of the supply chain and their alignment within the overall value proposition of the supply chain.

The second section of this paper focuses on the study of relevant literature on value. The third section introduces the value matrix, a framework containing six generic value propositions. The fourth section discusses the methodology used to carry out the case study. The fifth section discusses the role of the value propositions on the value creation in supply chains in the context of the case study. The sixth section focuses on the analysis of the case study results. Finally, the paper finishes with conclusions and an agenda for further research.

2. Origins and evolution of the theory of value

It is a general belief that the debate on value dates from the Greek times with the theory of exchange from Aristotle in the 4th century BC, then Socrates' followers introduced a new view of value based on utility (Table 1). The Greek era was followed by the pre-classical era with writers like Petty (1623-1687), Cantillon (1734), Galiani (1728-1787) and Law (1671-1729) introducing the factors of production, which founded the labour theory. In 1723, Adam Smith initiated "the classical era" together with Ricardo (1772-1823), Mills (1806-1873) and Marx (1818-1883). They provided a new dimension to value by the introduction of labour cost and cost of production. It is at this point that Marx developed the original rate of exploitation and its resulting critique of capitalism. The neo-classical era was led by Jvons (1835-1882), Menger (1840-1921), Walras (1834-1910) and Marshall (1842-1924) and they focused on the utility the buyer expects to receive and the cost of production (Fogarty, 1996).

Table 1 shows that the literature on value dates back to the 4th century BC, 'the Greek époque', nevertheless value has become more popular in the last two centuries. Theories from the 1800's have been adopted by different fields. For instance, the theory from John Stuart Mill (1806-1873), which focuses on the labour theory of demand-supply, influenced the strategy theories, in particular the value chain and value activities proposed by various authors such as Porter (1985). Another theory adopted is the marginal utility theory from William Jevon (1835-1882) and Carl Manger (1840-1921), which focuses on the utility the buyer expects to receive. This influenced different theories of strategy and marketing; i.e. the relationship in transaction, the perceived value-sacrifice, the consumer behaviour and value delivery sequence (Crosby et al, 1990; Sheth et al, 1991; Bower and Garda, 1985).

Nowadays, the value delivery sequence, which is always referred as "the value proposition", was originated by McKinsey & Co's research group (Bower and Garda,1985). This emphasises the need to change from the traditional functional view of activities to an externally oriented view as a form of value delivery.

The value proposition, popularised by Tracy and Wiersema (1993), is defined as an implicit promise a company makes to customers to deliver a particular combination of values. Each proposition searches for the unique value that can be delivered to a chosen market. The theory behind value propositions is the creation of mutual value for customer and supplier. It can be achieved as a consequence of a reciprocal relationship between organisations and stakeholders in a network or constellation (Ramirez, 1999).

The value propositions directly impact business' strategies; e.g. they impact the market where businesses are competing, the acquisition and development of core competencies and capabilities, selection of members of the supply chain and the financial priorities. The value propositions also impact operations, e.g. market research, new product development, supplier relationships, production processes, customers' relationship and delivery systems. In other words the value propositions shape any subsequent plan and decision that companies make. Hence, the concept of value proposition is of increasing interest to both academics and practitioners from different fields particularly from operations, supply chain, strategy and performance management points of views.

[TABLE 1: The origins of value and their evolution]

3. The six value propositions of the value matrix

The value matrix was born from the three value propositions of Treacy and Wiersema (1996), i.e. product leaders, operational excellence and customer intimacy with the addition of the hard and soft value dimensions (Martinez and Bititci, 2000). The result of this combination is a two by three matrix with six value propositions: innovators, brand managers, price minimisers, simplifiers, technological integrators and socialisors.

The six value propositions of the value matrix align the key operational elements that the company has to build to offer a particular type of value that fulfils the customers' expectations of a specific market segment (Figure 1).

[FIGURE 1: The value matrix]

A more comprehensive explanation of the six value propositions of the Value Matrix are explained from two different perspectives: customer perspective "What customers get" and business perspective as "What the company needs to do" (Martinez and Bititci, 2001).

3.1 Innovators (I)
In this case the customers get new products, which they have never seen before, with unique and special characteristics. These type of companies need to focus on building strong design skills, work within short product lifecycles, make obsolete their own products and continuously introduce new products. The strategic objective of 'innovators' is to provide breakthrough through new designs and product generations within technological basis.

3.2 *Brand managers (BM)*

Brand managers' customers get status by the product acquisition to feed some feelings, such as superiority, ego and social acceptance among others. Hence, the value that these organisations proposes is a mix of physical attributes of the product, brand, service and even price; because, sometimes the price is considered as an attribute to the product especially for brand mangers. The strategic objective of 'brand managers' is to expand the market reinforcing the solid brand image of the product and/or company.

3.3. *Price minimisers (PM)*

Price minimisers' customers get good quality, reliable and conscious price products. In order to sustain this proposition, these organisations need to focus on the development of strong capabilities to reduce lead times, reduce costs and waste and optimise process performance. Their strategic objective is focused on making their production process efficient and driving down operational costs.

3.4 *Simplifiers (Si)*

Simplifiers' customers get availability and convenience to reach the products. In order to support this proposition, these organisations have to have strong focus and automation on order generation and order fulfilment to take out the hassle from customers. Their strategic objective is focused on building streamlined processes to make life simple and uncomplicated for customers in a creative, novel and profitable way.

3.5 *Technological Integrators (TI)*

Technological integrators' customers get total solutions, i.e. tailored products and services. In order to support this proposition, these organisations need to support their customers' processes, helping them to identify and provide new solutions; hence, personalised attention such as product delivery, pre- and post-purchasing service, installation and maintenance, are some of the attributes of their product/service. The strategic objective of 'technological integrators' is to customise specific and continuous solutions for carefully selected customers on the basis of long term relationships.

3.6 *Socialisors (So)*

Socialisors' customers get flexible and reliable services. In order to sustain this proposition, these organisations build capabilities of strong service delivery and long relationships with customers. Their strategic objective is focused on building confidence and trust through the service provided. Perhaps their products are not innovative, low price, tailored products, but the type of product and its delivery to their customers build a feeling of confidence of dealing with them. For instance, Socialisors build confidence by continuous interaction with the customer's business or supporting anytime their customers require them.

3.7 *Unit of analysis*

The value propositions of the value matrix can be applied to the whole organisation or to business units. However, our empirical research supports that it is more appropriate to apply the value propositions at business unit level (Martinez, 2003). Especially when an organisation has two or more business units with:

- different strategic positions
- are serving different market segments with different competitive requirements
- have different product strategies
- have significant operational differences
- their images are perceived differently by their markets.

4. Methodology

In the study of value creation in supply chains, it is important to go to the fundamental point where value is created to understand how it is created. This research issue demands an in-depth understanding of the value generated by each member of the supply chain. In doing so, the social constructivism paradigm provides us with a high degree of interaction with and involvement in the research issue and its environment. This allows the researchers to get access to different data sources and tacit information, which has the potential to inject new insight into the research (Voss et al., 2002; Easterby-Smith, 1999). For this reason a case study methodology has been adopted because case studies tend to be more descriptive and provide richer and deeper contextual data by using a wide variety of data collection tools (Yin 2000; Thietart et al, 2001).

4.1 *Application of the in-depth case study*

An in-depth case study was conducted on the supply chain of a company operating in the fashion industry. Data was collected through visits and meetings over a period of two months supported by semi-structured interviews, structured questionnaires and observations as well as studying a range of companies' documentation.

5. Case of study

Daks Simpson is an apparel manufacturer specialising in ladies and gents suits, jackets and trousers. Its products are sold in a global market with a significant presence in Europe and the Far-East.

Daks has two business units (BU), these are:

- **Daks BU** designs, manufactures and sells apparels under the Daks label. Daks' products, which are linked to a classic and elegant British heritage, are tailored and produced to high specifications in limited quantities. Usually, a gents; suit may sell at £400 - £600 in one of Daks' stores or through one of their retailers such as Harrods in the UK and Nordstrom in the US. These products compete with prestigious designers' houses such as Chanel, Armani, Prada, etc.

- **Contract BU** designs, manufactures and sells apparels under either customers' own label, or for corporate wear under a customers name, such as Bank of Scotland. Compared with the garments produced for the Daks BU, these are simpler and cheaper. These products compete with other similar commodity products.

Each business unit operates a different supply chain. From now on, the supply chain of Daks BU is called 'Daks SC' and the Contract BU is called 'Contract SC'.

Daks SC is characterised by its high product variety and low production volumes. Its design flexibility is high; i.e. every six months Daks SC launches a complete new collection[i]. For this reason, it has frequent changes to its schedule. In contrast, the Contract SC is characterised by its low product variety and large production volumes. Its design flexibility is very limited because its products have minor modifications to existing designs; therefore, the changes to schedule are low (Table2).

[TABLE 2: Comparison of Daks and Contract's supply chains]

Figures 2 and 3 illustrate both supply chains. It is clear that Contract SC is simpler than Daks SC. Daks SC has close communication and coordination with some suppliers, such as Arthur Bell, B&L and London Badges, on the design of new materials (cloths, buttons and yarns). The discussion on the development of a new material takes up to four months before the material is accepted (Figure 2). In contrast, the relationship of Daks SC with other suppliers, such as Botto, is limited to a buying and selling transaction. The Contract SC does not design new cloths or apparels; it merely makes use of existing capabilities to produce commodity products at sensible prices (Figure 3).

[FIGURE 2: Daks supply chain]

[FIGURE3: Contract supply chain]

5.1 *Analysis of value creation*

An individual analysis of the creation of value was carried out for each supply chain. In doing so, the value propositions of the value matrix, previously discussed, were used to understand and identify the value proposition of each company in the supply chain. The value propositions are shown on the right hand corner of each supply chain member in Figures 2 and 3.

The overall value proposition of the Contract SC shows a consistent pattern of value creation following a price minimiser's strategy (Figure 3). The competencies and capabilities of the members of this supply chain, from yarn's suppliers to retailers, are aligned to minimise costs through lead time reduction, process standardisation and emphasis on quality control. The value proposition to customers is every day quality apparels at sensible prices.

The value creation process of Daks SC is more complex, it has a mix of value propositions from individual members of the supply chain (Figure 2). Hence, it is analysed on parts; i.e. the supply chain of cloth shows B&L is a Price Minimiser. B&L spins and dyes yarns for Arthur Bell; it creates value through the mass production of yarns. Then, Arthur Bell, which is an Innovator, works in close collaboration with Daks BU on the design of new cloths: combining yarns with style, colours, finishes, etc. A new cloth design process takes up to four months; logically it raises the materials costs. Then the cloth is supplied to Daks BU. Daks BU which is a Brand Manager, focuses on the design and creation of exclusive apparels. It manufactures high variety of apparels on low volume basis. Once the apparel is manufactured, it sold through retail outlets who are also Brand Managers.

Daks SC speeds up its production process by buying already designed cloths from Botto, which is an Italian Brand Manger. For buttons, Daks SC has two suppliers; these are Stern and London Badge. London Badge which follows a Technological Integrator's strategy customises buttons for Daks' exclusive apparels. The design of these buttons is developed by Daks BU with the help and expertise of London Badge. These expensive buttons are used for the external part of the apparels. Meanwhile, Stern which follows a Price Minimiser's strategy provides simple and cheap buttons to Daks BU. These buttons are used for the internal part of the apparels. Differently from London Badge, Stern is not a strategic member of Daks SC because it does not hold core capabilities or core products in Daks SC.

The trousers are also non-core products in Daks SC; therefore, the manufacturing facilities are economically outsourced from a supplier that operates a Price Minimiser's strategy.

6. Discussions and conclusions

This research illustrated how the value matrix could be used to model and better understand value creation process along the supply chain. The value matrix through its six value propositions provides a comprehensive framework for understanding how different organisations within a supply chain create value. Two supply chains were analysed and compared. Their value analysis showed that each supply chain has different value creation processes. The Contract SC follows a Price Minimiser value proposition; whereas, Daks SC follows a Brand Manager's value proposition.

The Contract SC has strong alignment of competencies and capabilities focused on cost reduction and optimisation of processes. Design flexibility is very limited, therefore, the collaboration and coordination of supply chain members is mainly focused on order fulfilment. All supply chain members follow the same value proposition; consequently there is not any operational or strategic conflict between members (Figure 4).

[FIGURE 4: The value propositions of the Contract SC]

The overall value proposition of Daks SC is Brand Manager. It focuses on the design and development of exclusive products and on the exploitation of its brand name. This supply chain provides an interesting process of value creation because, in contrast to the Contract SC, its members follow different value strategies (Figure 5). The core competencies of the Daks SC are held by key members (strategic members), which share the same value propositions 'Brand Managers' as Daks SC. Other non-core capabilities are acquired from other members, which have different value propositions. These support the overall SC value proposition by optimising costs, delivery times and reducing risks on uncomplicated and non-core products.

[FIGURE 5: The value proposition of the Daks SC]

Figure 5 shows the value propositions of Daks SC's members in the value matrix. It analyses the strategic and operational alignments of value between members. This analysis helps to identify complementary capabilities or conflicts. An interesting case is the relationship between Daks BU (Brand Manager) and Stern (Price Minimiser). Stern provides ordinary buttons at sensible prices; these are used for the internal part of Daks' apparels. At the strategic level, Stern supports Daks BU by reducing cost of apparels. At the operational level, someone might argue that frequent changes of Daks BU's production schedule might effect Stern's production schedule. Nevertheless, the nature of Stern's products (simple products and produce on high volumes) and its production process (make to stock) reduces the operational conflict between these members. Therefore, there is no operational problem to collaborate. Concluding, Daks BU and Stern's capabilities are aligned and are complementary, and the operational conflict is moderated.

A similar analysis was carried out for Daks BU (Brand Manager) and London Badge (Technological Integrator) (Figure 5). At the strategic level, London Badge's capabilities are complementary with the Daks' ones because the tailored buttons from London Badge enhance the exclusive designs of Daks BU. At the operational level, London Badge's product design and production schedule totally depend on Daks BU's needs. In conclusion, their strategic and operational capabilities are aligned, and do not have any operational conflict.

The combinations of value propositions, strategic competencies and capabilities from different members create a unique value creation process for Daks SC.

From these cases we can conclude that:

1. Strategic/key members of the supply chain are those who hold the core competencies of the chain.
2. The value propositions of strategic members of the supply chain should be aligned to enhance the value proposition of the entire supply chain.
3. Other members which are not strategic members of the supply chain can have different value propositions, but should support the value proposition of the overall supply chain.
4. The value proposition of strategic members of the supply chain dictate the value proposition of the overall supply chain.
5. The value proposition of the overall supply chain is the same as that of the company that is facing the end customer (Bititci et al, 2004).
6. The alignment of individual value propositions with the overall supply chain ensures the alignment of strategic competencies.
7. The collaboration with strategic members is focused on the improvement of the supply chain competencies.

This research initiated the conversation on the analysis of value creation on supply chains, by studying the value propositions of individual members. It provides initial insights on the integration and alignment of individual values and strategic competencies. It is particularly relevant to practitioners for changing how organisations design and operate supply chains.

This research proposes a value chain tool kit (Figure 6); a framework for the analysis of value creation on supply chains. The first three steps of this tool kit are focused on the identification of members of the supply chain (SC), its current competencies and capabilities and its value propositions. To identify the value propositions of SC members the six value propositions of the value matrix are used (see Section 3). The fourth to seventh step are focused on the value creation analysis. I.e. the value propositions from SC members are mapped to the value matrix, similarly as Figure 4 and 5. It is followed by the analysis of alignment and misalignments of the competencies and value propositions of SC members. Here, it is important to analyse alignments/misalignments at the strategic and operational levels. Thus, the gaps in competencies and problems are emerged (shown). Finally, the value analysis finishes with the development of a road map to solve or minimise problems associated with misalignments.

[FIGURE 6: Value chain tool kit: a framework for the analysis of value creation on supply chains]

This research also highlighted a number of research issues. The first issue is based on the limitation of this empirical study, i.e. single industrial sector with two case studies. Richer insights could be drawn from more cases on different industrial sectors. A second issue for future research is to study the relationship between the types of value produced between members. The third issue for future research is to study who and how the overall value proposition of the supply chain is defined. Some supply chain theories support that the strongest member of the supply chain dictates the direction and value proposition. Whereas, some other studies argue that the last member of the supply chain which faces the end customers dictates the direction the supply chain strategy (Bititci et al, 2004).

Research on these issues could help organisations to improve understanding and optimise the value creation process in supply chains, especially for those organisations that are building a new supply chain.

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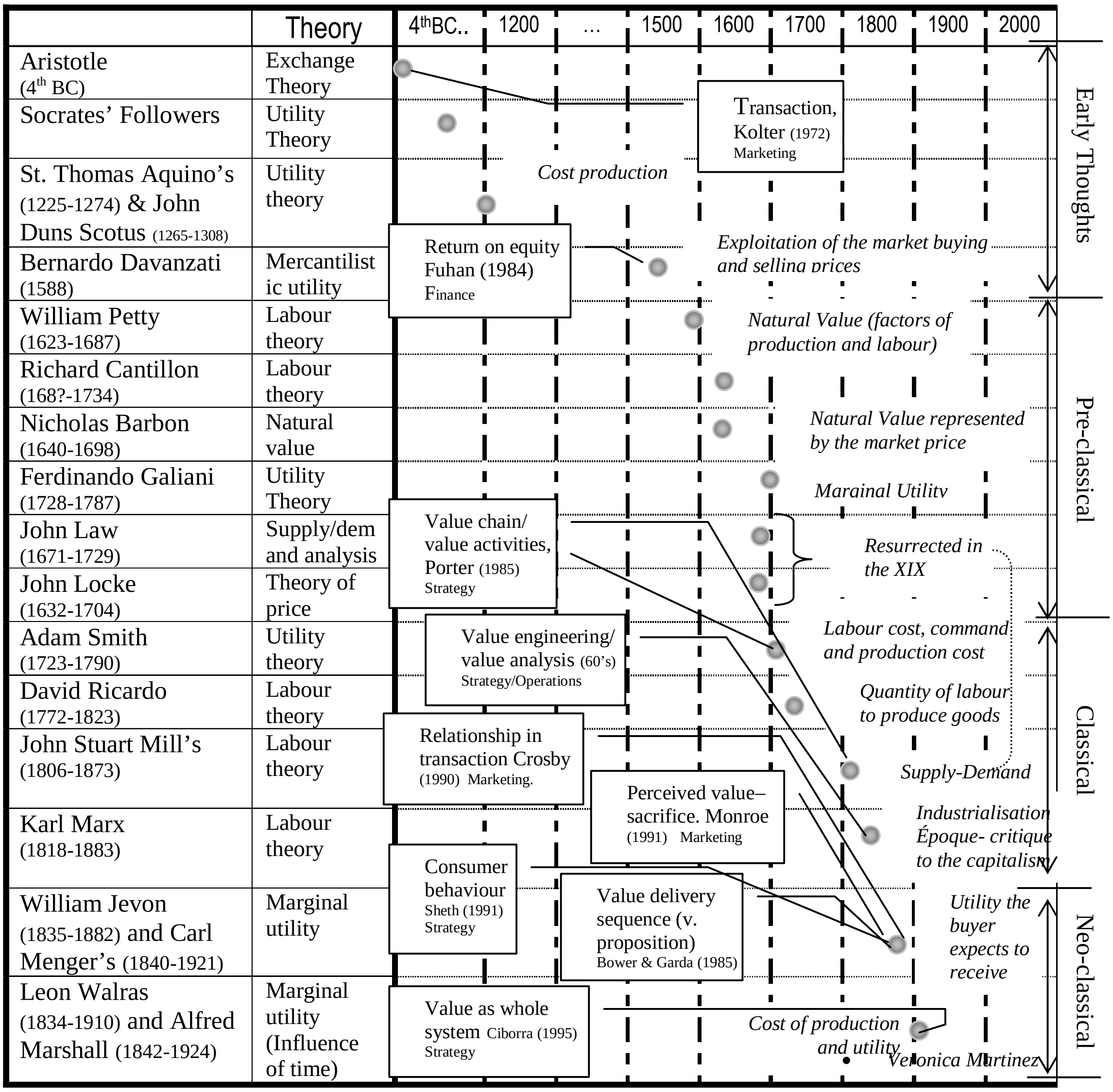
[i] In the fashion industry, this means that designers and creative directors have to work two seasons ahead, e.g. the design of a winter collection is done at the beginning of the spring.



Note: the capsules (boxes) indicate the adoption of a value theory by other field. The dates into the capsules do not imply that these theories were discovered on the same year as the above dates.

Table 1 The origins of value and their evolution.

	Supply Chains (SC)	
	Daks' supply chain	**Contract's supply chain**
Apparels designs	Exclusive styles	Simple designs
Product variety	High product variety	Low product variety
Production volumes	Low volumes	High volumes
Product Life Cycle)	Every six months launch a complete new collection	Fairly rare (mostly minor modifications to existing designs)
Tailoring Flexibility	High	None
Schedule stability	Frequent changes to production schedule and material specifications	Little or no changes to schedule
Cost of materials	High	Low
Operating Strategies	Spectrum of engineering to order and make to stock	Make to stock
Outsourcing	Manufacturing of accessories and trousers	None
Product prices	High	Competitive with other commodity products
Major Customers	Expensive fashion houses and high end retail outlets (e.g. Harrods, Nordstrom and Daks flagship shops, etc)	Everyday retail outlets and Corporate clients (e.g. Bank of Scotland)

Table 2. Comparison of Daks and Contract's supply chains.

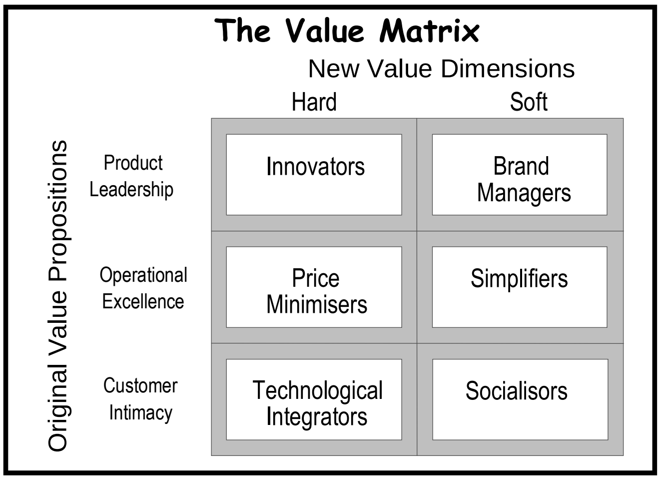


Figure 1 The value matrix

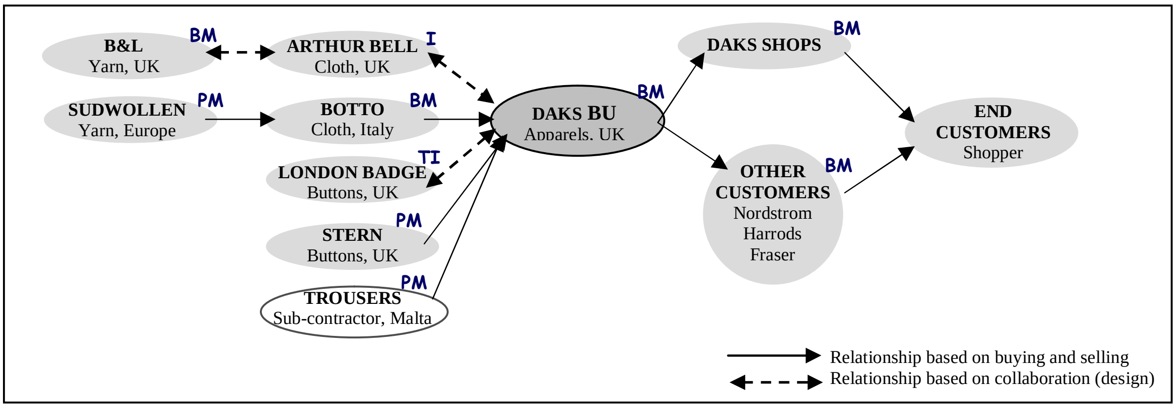


Figure 2 Daks supply chain

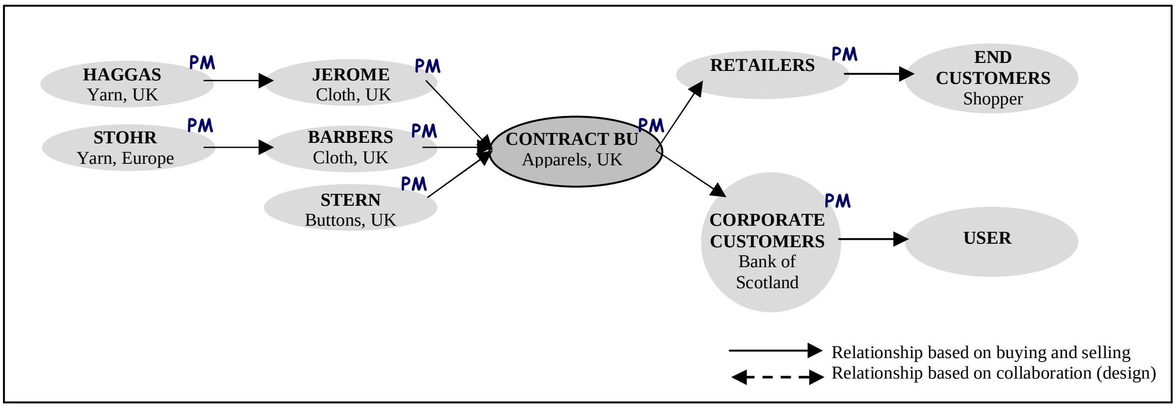


Figure 3 Contract supply chain

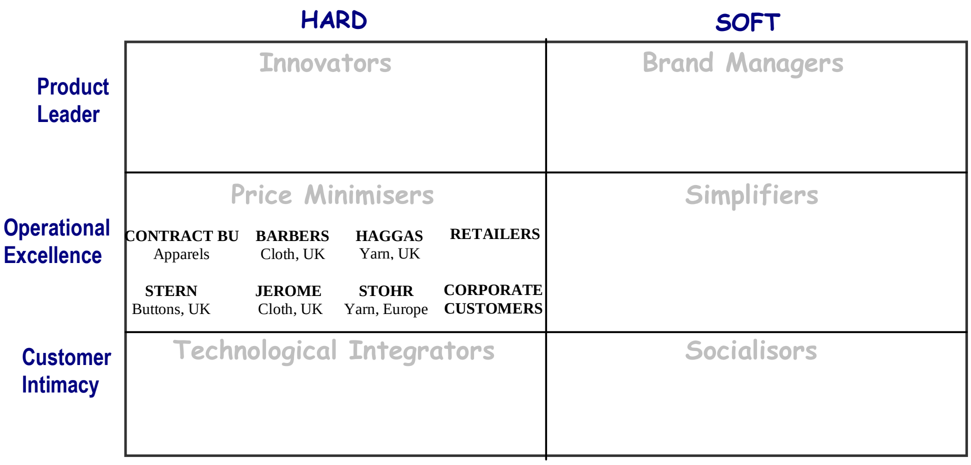


Figure 4 The value propositions of the Contract SC

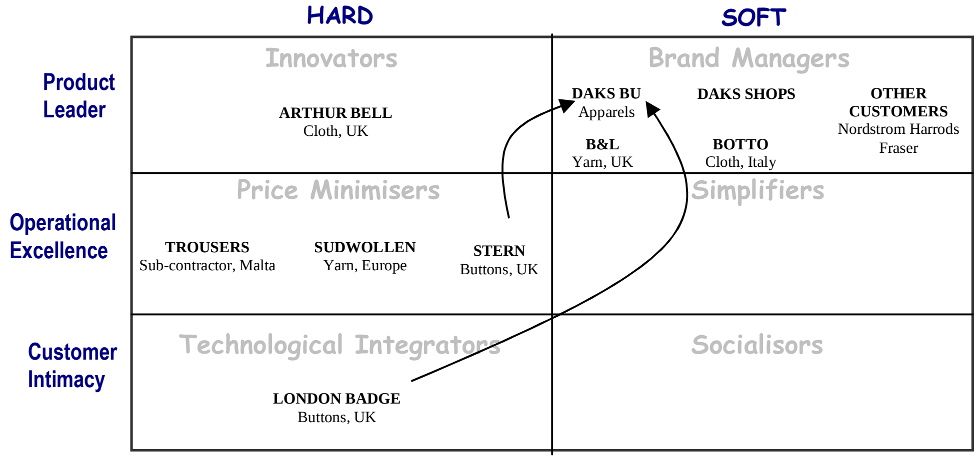


Figure 5 The value propositions of the Daks SC

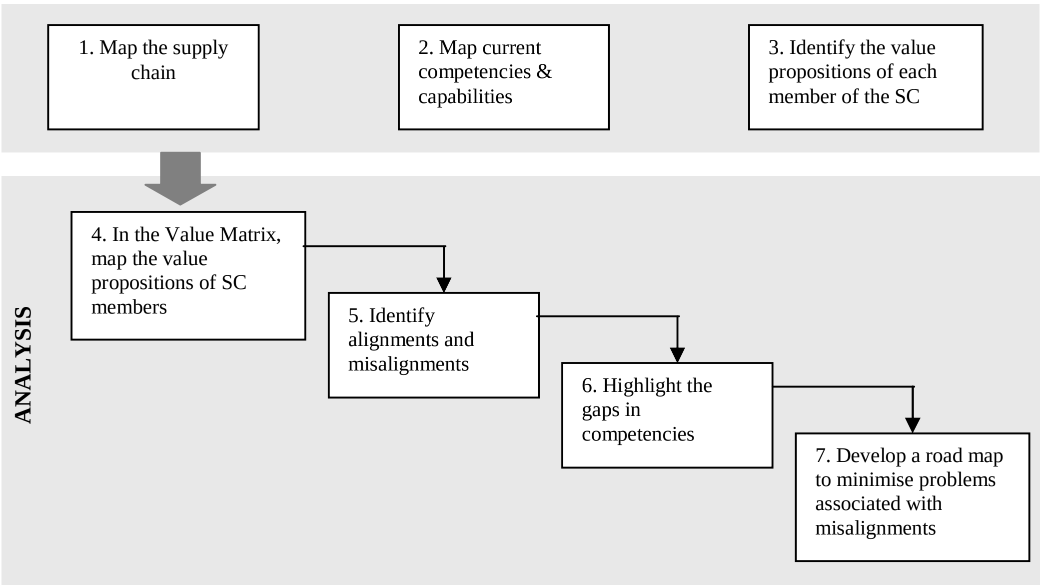


Figure 6 Value chain tool kit: a framework for the analysis of value creation on supply chains