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IDENTIFICATION OF SOCIAL VALUE CREATION SOURCES

Mikulov, July 2013

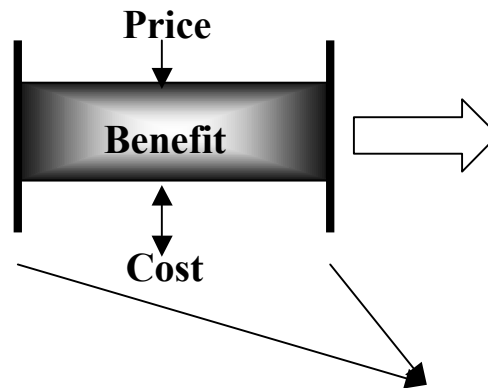
General principles of the methodology



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Erroneous approach



In order to keep the benefit when competing in a market, the traditional strategy of SMEs is the reduction of the retail price trying to cut costs in the same proportion. This effect is called “sandwich” because progressively reduces the action margin of the company.

Why the “sandwich effect” happens?:

- Don't know how and where they could create value.
- Don't what they are good at or what they really master
- Don't know the value of their human capital.
- Don't take advantage of the market opportunities

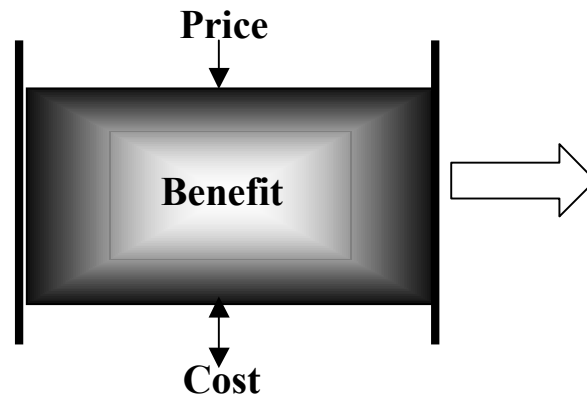
General principles of the methodology

Correct approach



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First of all the team must be conscious of where their limits are and then set up little innovative routines to create value in the market offering new functionalities, complements, perceived attributes etc. upon the physical product or service to amplify the benefit increasing the retail final price of the product or service in a higher scale than the cost of it.

General principles of the methodology



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Definition of Value Creation

Value creation is all kind of elements (technology, design, functionalities, etc.) that can be offered to the client in order to increase the benefit perceived by the client.

This benefit for the company can be:

- **Tangible**, that is, measurable in monetary units.
- **Intangible**, measurable in a higher value system: social, human, design, image, self-esteem, reputation, etc.



General principles of the methodology

Example of value creation for the final client



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- 2001 Renault Range

- 13 models
- 39 versions
- 35 options
- 17 exteriors
- 9 interiors
- 2 dashboard



5.429.970 products.

How to apply the methodology



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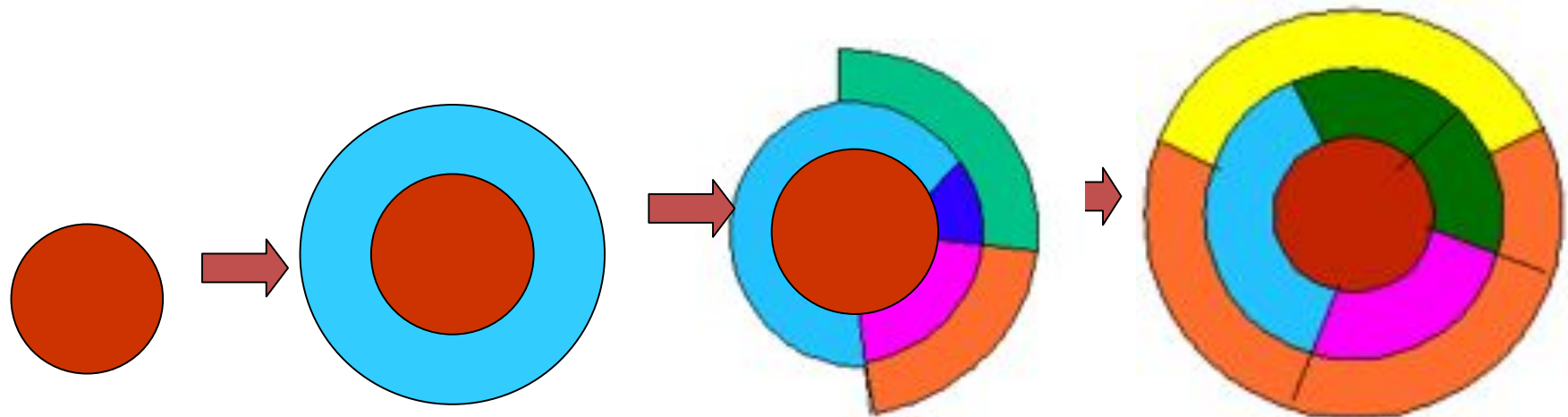
Identification of Value Creation Methodology

Number of sessions with the team: 3 sessions.

- Extended product analysis.
- Value chain analysis.
- Determination of Actual and Future value creation drivers.

Required team: It is the so-called “Explorers team” with knowledge about the potential client, the value chain, the potential competitors and the productive processes.

Extended Product Analysis



Functionalities

**Intangible values
/ Offer of
services and
attributes**

**Adjacent
complements
and
services**

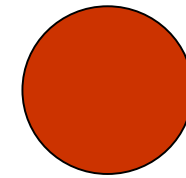
Extended Product Analysis



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The **PHYSICAL PRODUCT** is the tangible part tangible that the client perceives.



Physical product

Automotive example:

An automobile, whatever make of car, range, price, etc. it is produced with a general purpose: Transport people from origin to destiny. That is a fact, it does not depend on type of client.

Extended Product Analysis



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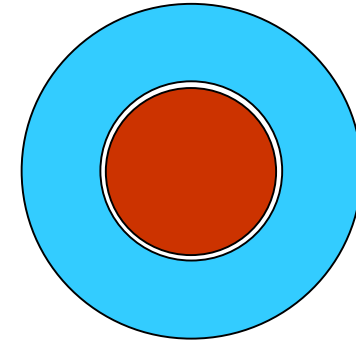
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The **FUNCTIONALITIES** associated to a physical product refer to the properties of usage of that product, its applicability in different situations, **needs that cover to the client**, etc.

It is in the edge between the tangible value because its “functionality” can be measured and the intangible since the functionalities for the client depend on the his / her perceptions.

Automotive Example:

Following the example of the automobile, the functions incorporated by the car maker upon the physical product are those general purpose functionalities additional to transporting people. Example of these associated functionalities are: comfort of the seats, radio/music player, boot spaciousness, well-finished interiors.



Functionalities

Extended Product Analysis

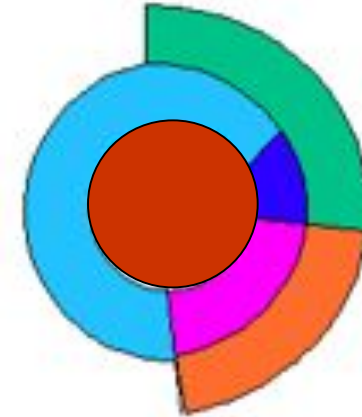


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ATTRIBUTES make reference to the **intangible values induced** by the producer to the potential clients and that are associated to the product by these users, such as: image, quality, social reputation, associated status, etc. These intangible values depend not only of the perception of the client but also **depend on the projections of the rest of the community** that use that product.

Practical exercise: Following with the example of the automobile, ¿What would be those **attributes**?



Intangible values / Offer of services and attributes

Extended Product Analysis

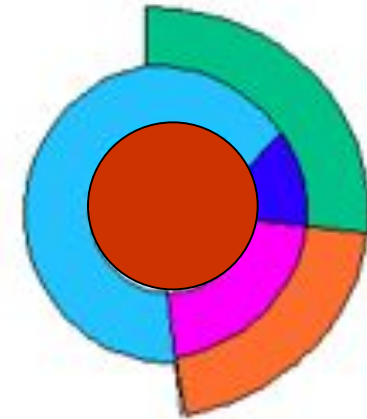


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Example:

In the case of the car industry is evident the efforts done by the producers to associate a certain reputation / status / image to their cars in the market... so that the status projected to the rest of the community by the user is the designed and generated by the producer. For example, it is not the same the status projected by the owner of a AUDI that the owner of a SEAT although the equipment could be pretty the same. At the same time, this associated image / design adds an intangible value difficult to be measured.



**Intangible values /
Offer of services
and attributes**

Extended Product Analysis

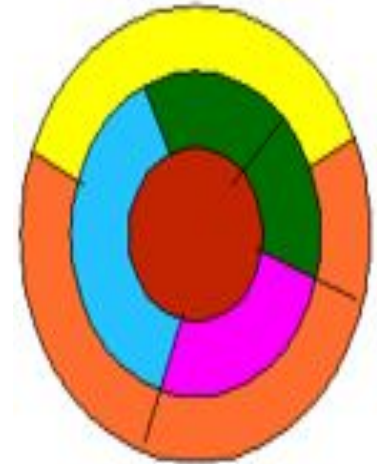


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Finally, product **COMPLEMENTS** make reference to all the rest of external services different to the product itself, that is, all that is around and allows to **extent the value chain** perceived by the client.

Practical exercise: Following with the example of the automobile sector,
¿What would be those complements?



Extended Product Analysis

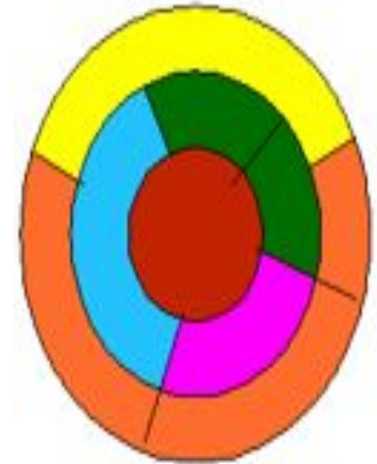


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Example:

We are talking about those car distributors or producers that associate extra services to the cars such as car insurances, free programmed maintenance, car leasing or renting, second hand cars, on-line technical assistance.



Extended Product Analysis

Example:



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