For example, Asea Brown Boveri, better known as ABB, had charged customers a daily rental fee for drilling pipe used on ocean-based oil and gas rigs. The customer was responsible for managing the delivery of equipment to drilling sites in the countries around the world, which is often very expensive and complex to navigate. ABB saw an opportunity to shift the emphasis away from price to a focus on service by charging customers for services to get the pipes to the wells (including navigating customs and import bureaucracies). Because ABB was doing this for many of its customers across more than 100 countries, it was able to gain efficiencies in the importation process and lower the overall costs for its customers.

Another example is Rolls-Royce, the global market leader for commercial jet engines that powered half of the wide-bodied passenger jets built in 2016. It overcame formidable competitors like GE and Pratt & Whitney with an engine design that was more costly to make, but that can be customized to a far wider range of aircraft designs than its rivals. But beyond supplying an excellent product, Rolls-Royce introduced an after-sale support option that addressed customers' concerns about engine maintenance costs. In this approach, Rolls-Royce's airline customers don't actually buy the engines. Instead, as part of the "Power by the Hour" program, customers pay a fee based on the number of hours flown. In exchange for this fee, Rolls-Royce handles all maintenance, repairs, and replacement expenses. This personalized service amounts to customer savings while also allowing the customer to focus on their own business—not on jet engine maintenance. Every function of each engine is continuously monitored while it is in the air to get an early warning of a service need. This means fewer emergency repairs. The monitoring also provides Rolls-Royce with important information that enables product improvements.[14] As the COO noted, "You could only get closer to the customer by being in the plane."[15]

CUSTOMER VALUE LEADERSHIP

Although a value proposition is essential for competing on customer value, it is hardly sufficient. True customer value leaders work to stand out on one source of value—such as how Toms Shoes stands out on social value—while performing at least at parity on other important sources of value. The shoes perform the basic functions of footwear, use reasonable quality materials, and are sold at prices similar to other types of casual shoes (despite giving away one pair).

To understand this approach to value, think about each type of value as a vector—a continuum upon which all offerings in a given industry can be placed by customers (see Figure 6.2). These are

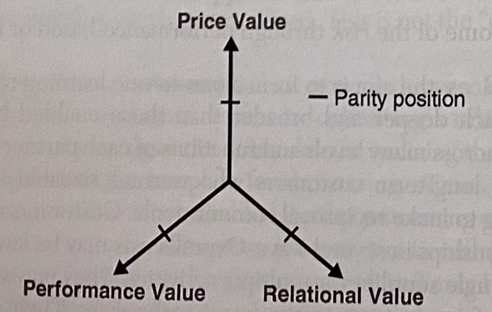

Figure 6.2 The Three Value Vectors

the three general types of value that customers use when making choices among competing alternatives. Will their bottled water be a premium offering such as Evian or Gerolsteiner, a standard option in a Dansani or Aquafina offering by The Coca Cola Company and PepsiCo, or a bottled water subscription service brought to customer's homes from Endless Waters or Crystal Springs? In the minds of prospective customers, each of these water brands has a position that is above, below, or at parity on each vector.

Customers judge the relative positions of the offerings in their consideration set—the set of offerings from among which they will select. To make a decision, they weight the vectors according to what is most important to them—for some customers this will be price value, for others performance or relational value. Importantly, what brands end up in the consideration set for comparison can, of course, be offerings from same category. For example, Perrier, Dasani, and Aquafina all compete head-on in the bottled water category. In other cases, the consideration set might include brands in related categories that fill the same need—in other words, water competes with other soft, sport, and fruit drink categories because they all have a claim on customer's "share of thirst."

Parity Performance

Each vector has a parity position. Parity is a customer-driven concept. The question is not whether there is an *actual* difference between competitors on a specific axis. It is whether customers *perceive* a meaningful difference. Companies often deceive themselves, believing that their carefully managed differentiation efforts matter to, or are even noticed by, customers. Parity is the level of performance that must be met if customers are to judge a firm's offering as credible. This parity level is more than just the minimum requirements for playing the game. Instead, it usually means at least a moderate, and often high, level of perceived competence reached by most competitors. Customers do not see a meaningful difference among offerings clustered around a parity position.

How does a firm judge whether its offerings are at parity? The arbiter is always the customer, including customers who buy from the firm now, those who have never bought from the firm, and those who may have stopped buying from the firm. Companies should ask two questions to make this determination. The first question to ask is "Which alternatives are in the customer's consideration set?" For example, Saks and Neiman Marcus are competing in a different market than Walmart or Dollar General. Understanding what alternatives are in the set will help the company get a better understanding of how it fares from the customer's perspective.

The second question is "How do the firm's offerings compare to competitors?" Do the firm's offerings stand out or just measure up? One way to assess parity is to ask a sample of customers to rate the firms or brands on key features and benefits. The rating scale could ask, for example, whether Hewlett Packard desktop copiers are ahead, equal, or behind competitors on print quality, technical support, price, speed, and so forth. The comparisons could be against the market leader and/or against top competitors for a certain segment of customers. A consistent rating of equality across offerings in a category is evidence of parity.

When competitive alternatives are all seen as close to parity on all three vectors, the market is essentially "stalemated" as no leader is established on any value vector. Without meaningful differentiation, the conversation between buyers and sellers usually deteriorates to a negotiation about price. The resulting downward pressure on margins means that few firms have profits that exceed their cost of capital.