about acceptable performance on each attribute rise, they are less willing to accept below parity performance on any vector. These pressures require firms to pay attention to all three value vectors, not just the value vector they seek value leadership on. Performance value leaders can't allow prices and costs to be badly out of line or their service to be viewed as unacceptably poor. If they do, such leaders will be forced to offset the deficiencies in the total value of their offering by lowering prices.

MANAGING FOR CUSTOMER VALUE LEADERSHIP

How does a company achieve and maintain a position of customer value leadership? Three steps are important—selecting a focus and not trying to be all things to all customers, aligning the business model, and creating strategic synergies when possible.

Selecting a Focus and Making Tradeoffs

Customer value leaders don't try to straddle multiple value vectors. They accept the familiar adage "you can't be all things to all people." Many executive teams initially reject this premise because they don't want to make choices that limit the markets they can serve. This delusion is dangerous on two grounds. To begin, both customers and employees are likely to be confused about the positioning of the firm. The brand message is murky, the selling appeals lack consistency and clarity, and the product or service bundle is a series of compromises. C.J. Bruno, VP and General Manager of Marketing and Sales for Intel Americas, famously referred to this approach as "peanut butter marketing"—marketing spread too thinly over the marketplace. Such a strategy is not only tepid in its communication with the marketplace, but it is also vulnerable to attacks by more focused competitors.

Pharmacy giant CVS made a strategic decision to compete as a health-care provider by offering in-store clinics. Selling tobacco was too inconsistent with this aspiration, so the company dropped tobacco products from its stores in 2014. This decision is estimated to have cost the company about $2 billion per year. Financial results show that net revenues did not grow as fast in 2015, the year after the decision. However, longer-term growth has shown that CVS has achieved a strong position in the emerging pharmacy clinic industry and that this has offset its losses in tobacco sales. Such decisions require vision and courage on the part of leaders: Vision to understand where markets are moving and where the company should make its biggest bets and courage to make the tough choice to not spread the firm over too many opportunities.

Aligning the Business Model

If the value proposition is *what* the company offers to the target segment, then the business model is *how* the business profitably fulfills this promise. Effective business models are tightly synchronized to fit the value proposition—not the other way around! What distinguishes Edward Jones from Chase and Wells Fargo is a strategy of providing relational value based on placing one financial adviser in a conveniently located in strip mall and suburban offices rather than a team of advisors in a more central location. Each advisor works deeply with clients offering personalized attention and advice that is difficult to achieve when spread across advisors. As the head of talent

notes, "You deeply serve clients by having a meaningful relationship with an appropriate amount of families that you focus on." The solo advisor status also means that advisors must be entrepreneurial and build the business through referrals from current advisors and by advertising in local markets.

Good business models answer two enduring questions. First, what is the value-creating system—what business activities are necessary to create the value we promised our customers and who will perform them? Second, what is the value-capture system—how does the company make money while creating value for its customers?[19]

The Value-Creating System

This comprises all the activities the firm performs to create and deliver customer value, from basic inputs to create products and services to the channels used to sell, service, and distribute an offering. It represents firm choices of (1) which activities to perform and (2) who performs them—whether it is the firm or a partner.

The question of which activities to perform is essential. What activities are essential to create the value the company has promised the customer? Starbucks has a well-orchestrated set of activities for opening a new store—from location selection, store design, and barista training—that are a winning recipe. Whatever activity, the companies need strong competencies in those activities to ensure that value is created consistently and effectively. Each competency, whether it is outstanding scientific invention, brand management, order fulfillment, pricing, or talent acquisition, is a complex bundle of skills and knowledge and systems exercised through a distinct organizational processes. There are, however, only a few core competencies within each business that really contribute to the creation of superior customer value. These should be lavished with management attention because they are so essential to the strategy. What sets Marriott Hotels apart from its peer competitors is a service operations capability performed with a fanatical attention to detail. This begins with recruiting and hiring and continues through every hotel operation. The payoff is a consistently superior service—Marriott customers seldom have unpleasant surprises. Marriott's other capabilities are done well enough to keep it in the game but are not the basis of the company's advantage.

The question of who performs the value-creating activities is increasingly pressing as firms evolve toward leveraging networks of intermediaries and partners. Consider Li & Fung, the Asian trading company that supplies more than $18 billion a year in clothing, toys, and other products for top U.S. brands, but does not own a single factory. Instead, Li & Fung's customers outsource their production to Li & Fung, which in turn, outsources it to a network of over 15,000 suppliers around the globe. This gives Li & Fung incredible flexibility and speed that customers value. These benefits, however, come with some loss of control. If that loss affects whether the value proposition is fulfilled, the company's value-creating system begins to break down and should be redesigned.

Thus, a company must carefully consider whether it will create the value (often called a "make" strategy), buy another company that can do so (a "buy" strategy), or form an alliance with another company to create the value (an "ally" or "alliance" strategy). A make strategy is the most expensive and should only be undertaken if the company has the right assets and competencies. A buy strategy is also expensive because the knowledge and skills have to be bought. However, the company now fully controls these activities—the challenge is to manage the integration with the new company. An ally strategy is the least expensive, but the company also encounters the costs and challenges of managing the partnership to meet its objectives.