Chapter 3
Value Creation and Overall Framework

Business models prove their brilliance by the value they create for all stakeholders and are challenged to renew themselves for the future.

- ***Value creation. A brilliant business model is the source for satisfied, more loyal and profitable customers on the one hand and the basis for value creation for shareholders and employees on the other. Together these contribute to value creation for society. The value created is the result of the business model and is therefore the ultimate test and the evidence for the brilliance thereof. The organization can set value creation targets and measure them relative to customers, shareholders, employees, and society.***
- ***Phasing. The sequence from the cornerstones vision and positioning, to the business model and the resulting value creation is not random. This is also the step-by-step order in which brilliant business models can be best described. It also appears to be the sequence in terms of time and causality. Whereas the objective is value creation for all stakeholders, that result is not present from the beginning, but rather the desired outcome. To effect that, a working and consistent business model must be present. And that demands once again clarity of vision and positioning. Permanent brilliance? A company is and continues to be a social construct. Paradoxically, it is actually extra difficult for an organization that has successfully completed the steps above to maintain that success. The challenge in "phase 4" becomes sticking to the core of the business model and simultaneously renewing the organization for the future.***

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3.1 Value Creation for All Stakeholders[1]

A brilliant business model that is completely in line with the organization's vision and positioning is the source of satisfied and more loyal and profitable customers. This, in turn, is the basis for value creation for shareholders and employees. The value created for stakeholders and the organization itself is the result of the business model as a whole and is therefore the ultimate test of its brilliance. The organization can set value creation targets and measure these targets per stakeholder:

- *Customers*: What does the value created for the customer in the business model give back to the organization?
- *Shareholders*: What value is created for shareholders and other owners, and what do they give back to the organization?
- *Employees*: What value is created for employees and what do they give back to the organization?
- *Society*: What value is created for society and what does this give back to the organization?

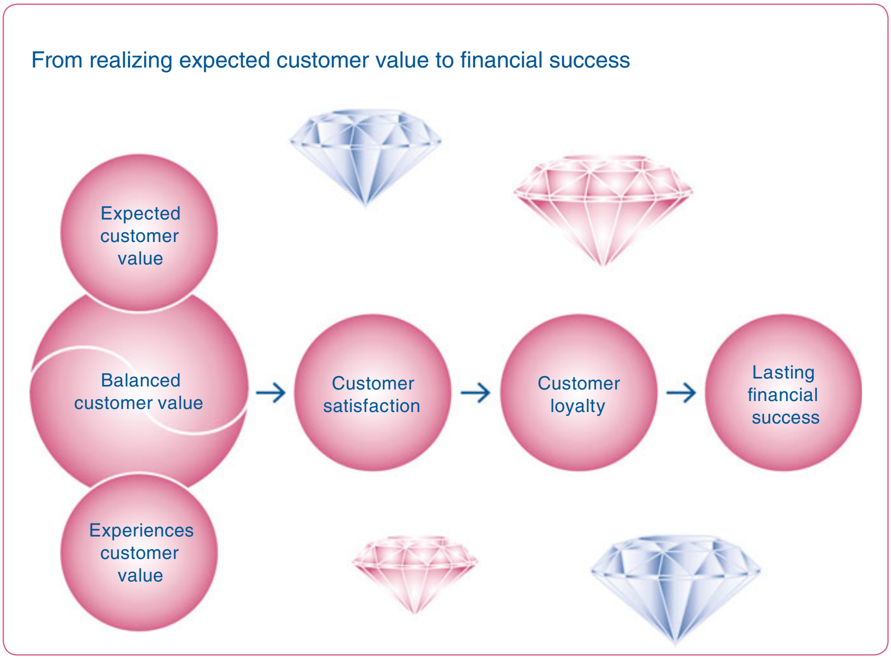
The importance of fulfilling and proving promises is a dominant theme not only in branding theory but also in the Value Profit Chain theory that has been built up over the past 25 years thanks to research into services marketing.[2] The key topic is the realization of sustainable financial and commercial success by not only promising as an organization to deliver relevant value to customers but also to fulfill this promise. The causal relationship behind this is that sustainable success is realized on the basis of loyal customers.[3] Customers become loyal because they are satisfied. Customers become satisfied because the expected value upon purchase of the product or service is also experienced in the use thereof.[4] Simply stated: the causal relationship exists that is outlined in the figure below.

[1] For value creation, reference is also made to Zeithaml et al. (1990), Reichheld (1996), Heskett et al. (2003, 2008), and Geelhoed et al. (2014).

[2] See for instance: Zeithaml et al. (1985, 1990), Reichheld (1996), and Heskett et al. (2003, 2008).

[3] See for instance: Bügel (2004).

[4] Kemperman and Van Engelen (1999).



Where healthcare is provided, this relationship is different than for a "normal" commercial service provider. When looked at from the point of view of the patient, the objective of the cure is to ensure that the customer does *not* return! That being said, the loyalty mechanism does appear to definitely be important within healthcare. If, in terms of healthcare, patients are properly helped and are also satisfied themselves, that reinforces the reputation of the healthcare practitioner in relation to other patients, referring physicians, and insurers. These "customer groups" surrounding the patient will be more inclined to rely again on the healthcare practitioner themselves or refer others to them. As long as there is little transparency regarding results and findings, the fulfillment of expectations will only be rewarded to a limited extent. The quality of healthcare practitioners and the results and findings are not always transparent for patients. Individuals are often barely aware of the enormous differences in findings and prescribed treatments between healthcare practitioners. The extent of transparency is growing and that is being promoted by social media. With the growing insight into healthcare concerning quality, practice variety, and patient safety, the causal relationship of the value profit chain is also increasingly having more of an impact on healthcare.

There can seem to be an area of tension between satisfying customers, employees, shareholders, and society. In the short term, there might even be a discrepancy between the value for various parties. For instance, a decision can be made that the margin on products is increased at the expense of existing customers and for the benefit of shareholders. A decision can also be made to distribute part of the profit in the past year as salary or a bonus to employees and consequently less to shareholders. It is evident from research at organizations into the value created for stakeholders that the best organizations in fact excel for all persons concerned: customers, employees, shareholders *and* society. Management author Sisodia demonstrates that businesses that focus on all stakeholders even perform eight times better on the stock exchange than the average company (the S&P 500)[5] and even three times better than the legendary Good to Great companies.[6] The conclusion is that realizing value for customers, shareholders, and employees in the long term does not exclude any of these parties, but in fact reinforces each other and creates societal value as well. If the organization creates more customer value, they will also give more value back to the organization. This is the source for creating more value for shareholders who, in return, are also prepared to invest more in the organization and the further growth and development thereof. With the investments of shareholders and the positive feedback of customers, the organization can offer more to and invest in the employees, who, in exchange, also create more value for customers. In sum, there is an upward spiral in which stakeholders, for whom added value is created, in turn, also provide added value back for the organization. As a result thereof, more added value is created for the stakeholders. In this spiral the level of involvement of the people concerned changes from satisfaction to ownership.[7] The positive relationship between value creation for and by customers, employees, and shareholders is illustrated in the figure below.[8]

From a social point of view, a business can be considered to be a construct where the parties concerned exchange value. The evidence for and ultimate test of the brilliance of the business model is value creation: the extent to which (1) value is created for all stakeholders and (2) this ensures that these stakeholders give value back to the organization. If this is positive and all persons involved are satisfied, the organization has in fact a sustainable *raison d'être*. The organization can set value creation targets and measure these targets per stakeholder:

- *Customer value*: Aside from the organization's value for the customer (which has already been defined in the business model), the customer also has value for the organization. This can be measured in terms of loyalty, co-creation, referral behavior, and portfolio share. Within healthcare, this often concerns, as previously discussed, not only the patient, but also groups and influencers around them, such as the social network, referrers, insurers, and patient organizations.
- *Shareholder value*: The organization's value for the shareholders concerns yield, the organization's market value, profitability, and growth. Conversely, the shareholder has value for the organization via loyalty, investments, referrals, and portfolio share. Within healthcare, a shareholder does not always exist in the traditional sense of the word. Attracting external capital is much more difficult in

[5] Sisodia et al. (2007). Sisodia reviewed the return on investment of these organizations over a period of 10 years.

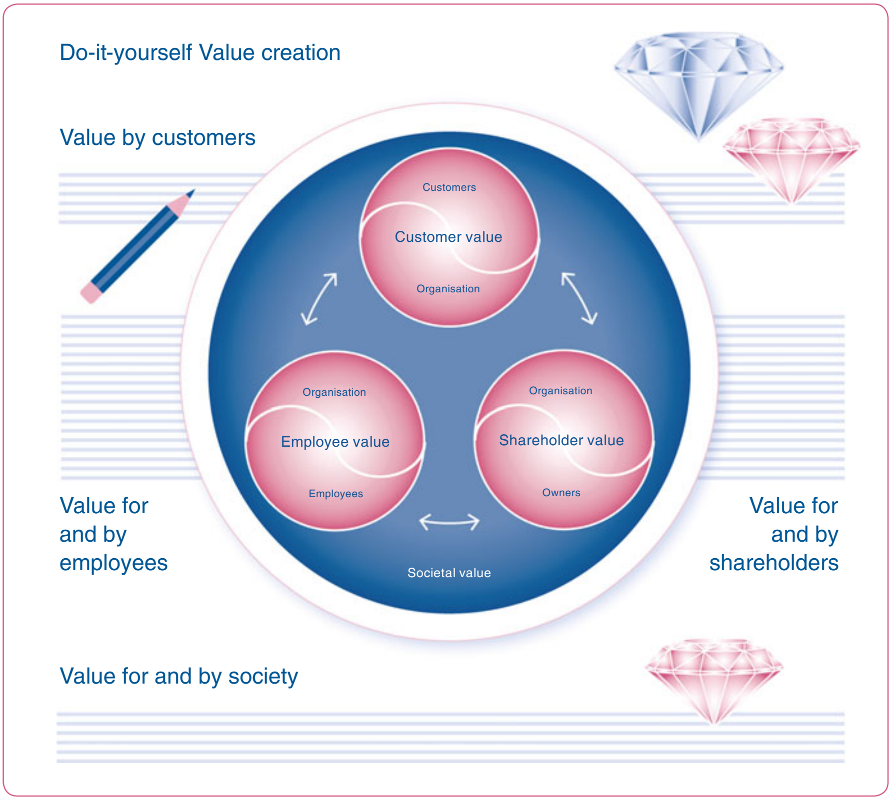
[6] Collins (2001).

[7] Heskett et al. (2008).

[8] Heskett et al. (2003) and Geelhoed et al. (2014).

some countries; in those cases investments must therefore be made from the company's own resources. Logically, bank loan requirements are simultaneously set for equity, collateral, and the management of business risks. Consequently, the organization's continuity is certainly as strongly associated with a sound financial result and reserves as in other sectors.

- *Employee value*: The organization's value for the employees relates to the appreciation and the pleasure derived in the form of chances and challenges, inspirational working environment, reward, appreciation and confirmation, openness, degrees of freedom, celebration moments, and work-life balance. It concerns material rewards, as well as the space for a private life in addition to training and development. Conversely, the employee has value for the organization via performance in increasing customer bonding, turnover and productivity, attracting other employees and applying and tranferring ideas, motivation, knowledge and culture.
- *Societal value*: The organization's value for society relates to the creation of employment, welfare, health, happiness and prosperity. Conversely, society has value for the organization via the acquisition of goodwill, a positive image and the confirmation and appreciation of the societal contribution made by the organization.



3.2 Conceptual Framework and Phasing

Now that we have looked at the different components (vision, positioning, business model and value creation), it is time to turn to summary and action. How do these different components relate to one another? And how is a brilliant business model to be defined and developed? What steps should be completed to that end?

Based on the cases we have analyzed, there is a certain sequence and connection between the fundamentals, the business model and a good performance. In the conceptual model central to this book, the theory regarding vision, positioning, business models and service marketing has consequently been integrated and placed within an overall framework. To be precise, we see three phases, in each one of which a number of vital questions are answered. This sequence of questions forms, as it were, a step-by-step plan.

Phase 1: Vision and positioning: "who do you want to be and why?"

- Vision: What is the organization's vision regarding who it wants to be and why it wants to exist?
- Positioning: What position does the brand have to occupy in the hearts and minds of customers?

Phase 2: Business model: a description of how the organization creates, delivers and designs value.[9] Stated succinctly: "Who is the organization, how does it operate and for whom?"

- Market segments: For which customers does the brand want to exist?
- Customer value: Which value does the organization have in the lives of customers?
- Delivery: What does this require in the organization's interaction process with customers?
- Operation: What does this require in the organization's operation?

Phase 3: Result: What outcome is realized for customers, employees, shareholders and society?

- Value creation: What is the sustainable result for all parties concerned?

This overall framework has consequently been used as a stepping stone and structure to describe the brilliant cases in this book. The sequence is not random. This is also the step-by-step order in which brilliant business models can be best described. It also appears to be the sequence in terms of both time and causality. Whereas the objective is value creation for all stakeholders, that objective is not present from the beginning, but rather the desired result. To effect that, a working and consistent business model must be present for the company's own organization, together with customers and other stakeholders and partners. For that to be truly set up in a focused manner, a vision and positioning are first required. It is necessary to

[9] Heskett et al. (2008).

consider from the start how the business model must work and how it must create value for all stakeholders. The fire for a brilliant business model starts with a spark, i.e., the vision and position that you want to occupy based on the question "why."

3.3 Permanent Brilliance?

A company is and continues to be a social construct. It ceases to exist, however, if more value is demanded of the existing stakeholders than is given to them. It is valuable to all parties concerned as long as it lasts. It need not continue into eternity. The lunar landing in 1969 is and continues to be valuable, but the highlight was also the final destination of the project. History was written, but that is not enough. If you were the National Aeronautics and Space Administration, you would not want to be some temporary construct, but rather continue to be brilliant.

Paradoxically, there are reasons why continued existence is all the more difficult for organizations that have successfully completed the first three phases of a brilliant business model.[10] The pioneering value produced for all stakeholders changes the playing field. There is more at stake for all stakeholders. This exposes the company to the risk of stagnancy, because the parties concerned are scared of losing something. At the same time, there is actually the risk of an escape forwards whereby stakeholders become opportunistic—or too much so—and always want more, as a result of which the core is forgotten. As a brilliant business model, it is, in short, best to keep calm, whilst you are being fawned upon, and to keep your feet on the ground instead of getting carried away. At the same time, success also attracts competitors who will start doing the same thing; this makes things exciting, but not necessarily any easier. In that regard, success elicits different responses from society. As long as you are the new kid on the block, you will be given a lot of slack and given the benefit of the doubt. But that changes as soon as you have outgrown that role and become a dominant player.

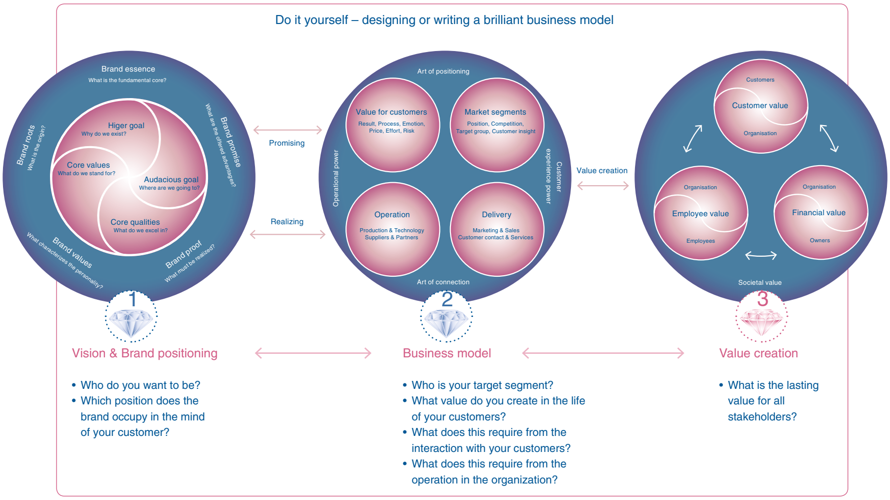
In short, a brilliant business does not always automatically remain brilliant. After the three phases have been completed, the challenge arises in keeping the corresponding three criteria consistently connected and continuing their development. In this fourth phase, the challenge is to not collapse under your own success. If the organization holds onto the past too much, it will be overtaken and become obsolete. If things get out of hand during the renewal phase, the connection to the roots and the core qualities will be lost—precisely the things that make the organization unique. In short, the challenge then becomes maintaining the core and specifically continuing to innovate on that basis.[11] Actually, you want to return to the future of phase 1, where the freshness and ambition of this phase is enriched by the experience gained and successes achieved. At the same time, doing so has not become any easier. The organization is less nimble. There are now many more parties depending

[10] Kemperman et al. (2013).

[11] Collins and Porras (1994).

on the value that the organization is creating and vice versa the organization also depends on the value that all these stakeholders give back in return.

It seems as if all the healthcare systems in the Western world are stuck in the "mud" of phase 4. That seems also applicable to many of the players involved in this phase: large enough to stay afloat, but too cumbersome to be able to really soar. Things are going too well to really have to change on the basis of urgency, but at the same time not well enough to dare to change on the basis of excitement.



In Part II of this book, we will look at examples of companies that stand out and really make a contribution to the breakthroughs necessary to make proper healthcare affordable and accessible and to keep it that way. Incorporated into this book as case studies, these organizations also need not to remain brilliant forever. They have not been selected as a prediction. Even more: some of them have been included because they were brilliant in an earlier stage, whereas the gloss has dimmed a bit since then—which is then also described as such. We do not learn what these businesses will be able to do tomorrow, but rather what they did yesterday or are doing today. They are included in this publication because they represent an inspiring and pioneering example for our consideration today (and sometimes even coming from the past). They are not in the future, but do provide an inspiration for it.

To test and reflect upon the brilliance of business models this chapter concludes with a self-assessment in 13 questions. These questions help to evaluate whether the own business model has a compelling vision which is executed without compromises and delivers such a success to stakeholders that they would jointly restart the organization if it stopped to exist.

Self assessment Brilliant Business Models

Brand essence

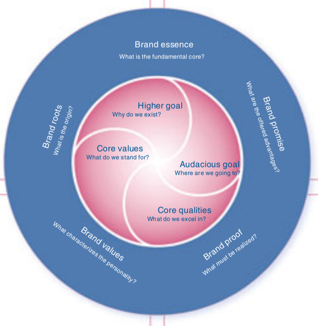
Question: Are our customers, employees, shareholders and society better off because we exist?

Higher goal and brand roots

Question: Do we understand why we exist and are we still loyal to this challenge?

Audacious goal and brand promise

Question: Do we have an audacious goal that goes further than merely staying alive in the present market?



Core and brand values

Question: Are we transparent and trustworthy for the future?

Core qualities and brand proof

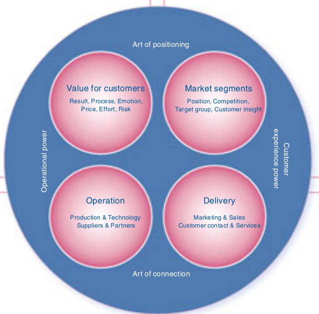
Question: Are our promises and qualities visible in clear examples for our customers? Do they tell each other about this?

Value for customers

Question: Do customers understand what they get from us and is that relevant for them?

Market segments

Question: Do we have a stronger position than our competitors with our target group?



Operation

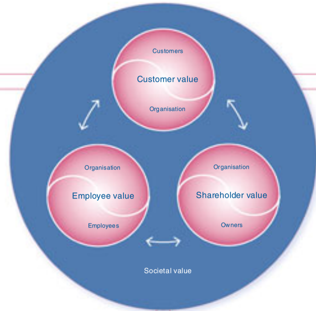
Question: Do we have a lean operation with the needed technology and knowledge to fulfill everyones expectations?

Delivery

Question: Do we have contact with our customers based on a human approach in which we jointly create the best solution?

Value by customers

Question: Would our customers buy from us again today and will they recommend us to potential customers?



Value for and by employees

Question: Would our employees work for us again today and will they recommend us to potential employees?

Value for and by shareholders

Question: Would our shareholders invest in us again today and will they recommend us to other shareholders?

Value for and by society

Question: Would our society support us and all our activities, if we would start out again today?