

Elements of Value

Measuring What Consumers Really Want

A HARVARD BUSINESS REVIEW WEBINAR FEATURING

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MEASURING WHAT CONSUMERS REALLY WANT

OVERVIEW

When customers evaluate a product or service, they weigh its perceived value against the price. It is fairly easy for marketers to understand and analyze how consumers think about the price side of the equation. But understanding what consumers truly value and why is much more complicated.

Bain & Company's Eric Almquist and his colleagues have identified 30 "Elements of Value" that span four categories: functional, emotional, life changing, and social impact. Companies that deliver multiple Elements of Value experience better business performance. This framework enables firms to redefine competition within their business sector.

CONTEXT

Almquist described the Elements of Value and explained how marketers can use this framework to improve customer experience and value, and spark growth. The Elements of Value can be applied to customer segmentation, new product development, and customer loyalty.

KEY LEARNINGS

When combined, the Elements of Value create compelling value propositions that elevate products and services above commodity status..

Authors Robert Kaplan and David Norton suggest that strategy is based on a differentiated customer value proposition, and that satisfying customers is the source of sustainable value creation. Research conducted by Bain & Company has found a relatively small set of ways to satisfy customers, which Bain calls the Elements of Value. When the Elements of Value are combined in various ways, they create a compelling value proposition and elevate products and services above commodity status.

The hypothesis behind the Elements of Value is that value isn't monolithic. Instead, it is built from multiple factors. For example, Nespresso owners appreciate the product's beautiful design, as well as its simplicity, time-saving ability, and European coffee experience. Netflix customers like the variety, cost, quality, and convenience of the entertainment offering.

Maslow's hierarchy of needs forms the basis of the Elements of Value framework.

As Bain looked for a framework to understand the Elements of Value, they turned to psychology and sociology. Maslow's hierarchy of needs was a useful starting point. Although most executives and marketers are aware of this hierarchy, it is far removed from the world of marketing strategy.

CONTRIBUTORS

Eric Almquist

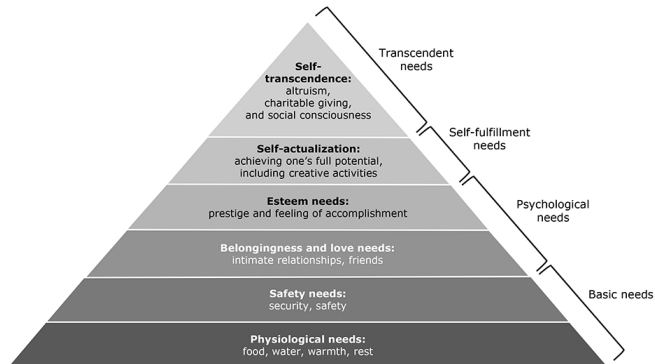
Partner, Bain & Company

Gardiner Morse (Moderator)

Senior Editor, *Harvard Business Review*

"There is a relatively small set of ways to satisfy customers, which we call the Elements of Value. The Elements of Value, in various combinations, create a compelling value proposition. These elements raise products and services above commodity status."

– ERIC ALMQUIST



Source: Maslow, A.H. (1969), "The farther reaches of human nature", *Journal of Transpersonal Psychology*, 1(1), 1-9.

Figure 1
Maslow's Hierarchy of Needs

The Bain team modified Maslow's hierarchy to create a new heuristic model of value. The 30 Elements of Value are divided into four categories:

- Functional elements.** What a product or service does for the customer.
- Emotional elements.** How a product or service makes the user feel.
- Life changing elements.** How a product or service changes the customer's life.
- Social impact elements.** How a product or service delivers value to society.

In addition, the Elements of Value can be categorized based on whether they provide inwardly focused value, such as reducing anxiety, or outwardly focused value, like conveying a sense of affiliation and belonging.

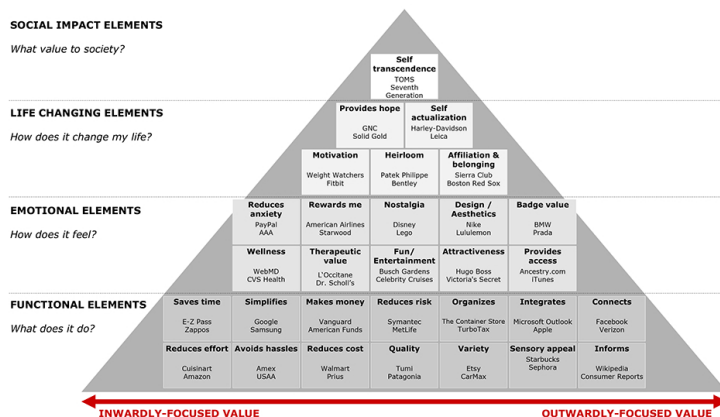


Figure 2
Examples of Companies
Exhibiting Elements of
Value

Companies with strong value propositions deliver multiple Elements of Value.

A recent Bain survey found that successful companies deliver on multiple Elements of Value. Examples include Toms Shoes, USAA, and Amazon. Amazon is notable for delivering on eight Elements of Value.

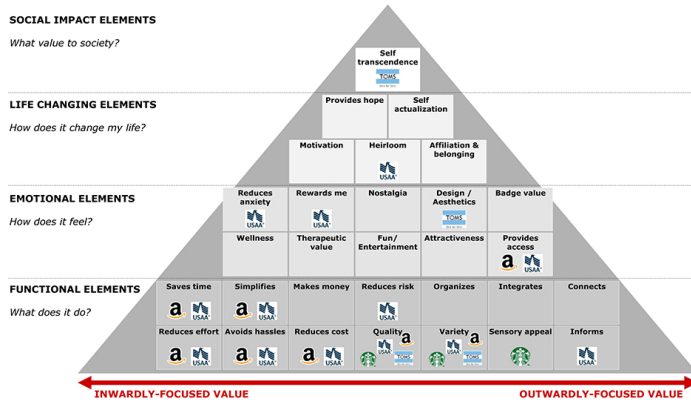


Figure 3
Very Strong Value Propositions
Deliver Multiple Elements of
Value

Source: Bain Elements of Value survey, Oct. 2015, N=8,014 tested 12 industries and 47 companies

Companies strengthen and differentiate their value propositions by adding new Elements of Value. To illustrate this, Almquist offered six examples:

1. **Vanguard.** In May 2015, the company added low-fee advice to its core investment services to better inform clients.
2. **American Express.** AMEX introduced novel cardholder programs which provide access to exclusive venues and events.
3. **Google.** Since 2007, the company has expanded Google Maps to give users access to street views, restaurant menus and reviews, business hours, and more.
4. **Domino's.** In 2007, the company introduced industry-leading, easy, and engaging mobile ordering and order tracking. This reduces the effort associated with pizza orders.
5. **Red Bull.** The company sponsors extreme sports competitions and communities that connect action sports enthusiasts worldwide.
6. **Nordstrom.** In 2014, the company acquired Trunk Club, a personal shopping subscription service that simplifies the process of selecting stylish, well-fitted apparel.

Organizations that excel on several Elements of Value have higher Net Promoter Scores and higher revenue growth.

To explore value patterns, Bain surveyed over 8,000 customers of 47 U.S. companies across multiple consumer-facing sectors. A key finding from this research is that companies that deliver on multiple Elements of Value have higher Net Promoter Scores and higher revenue growth.

“Amazon is a juggernaut when it comes to adding new Elements of Value to its offering.”

– ERIC ALMQUIST

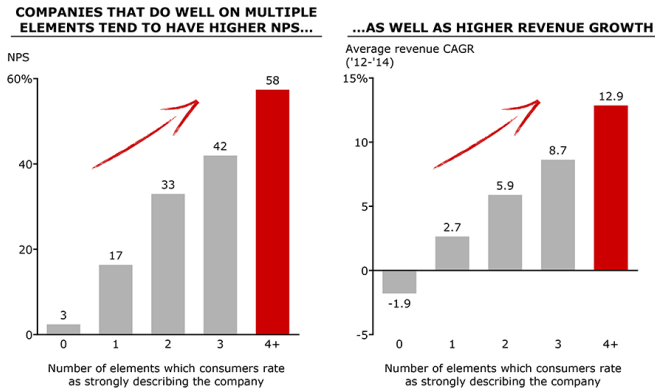


Figure 4
Companies That Excel on Multiple Elements Do Well on NPS and Revenue Growth

Digital companies exhibit unique value characteristics compared to traditional and omnichannel businesses.

Bain research uncovered insights related to digital companies and value.

- **Across categories, digital competitors deliver much more perceived value than traditional players.** Companies like Zappos, Amazon, eBay, and Netflix are rated much higher than their peers on several Elements of Value.



Figure 5
Digital Competitors Deliver Much More Perceived Value

- **Online-only retailers win on functional elements, while omnichannel websites win on emotional elements.** Consumers appreciate that online-only retailers help them save time, avoid hassles, reduce costs, provide access, reduce effort, and simplify their lives. Omnichannel websites are seen as providing badge value, attractiveness, sensory appeal, wellness, self-transcendence, and affiliation and belonging.

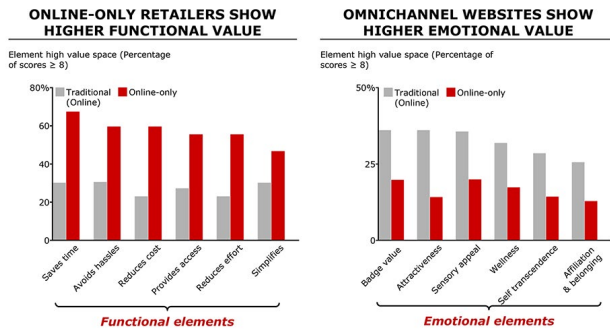


Figure 6
Online-only Retailers vs. Omnichannel

- **In the retail sector, online purchasers perceive the most value and in stores, assistance helps.** Customers feel that online transactions deliver more value than in-store transactions. However, in-store value is significantly improved when sales associates offer assistance.

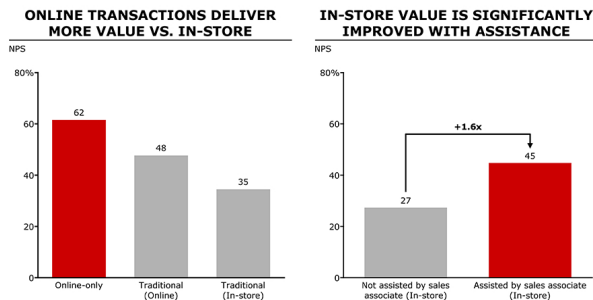


Figure 7
Retail: Online and In-Store Value

The Elements of Value can be used to improve business performance and change the game.

High-performing companies hunt for value relentlessly. They leverage the Elements of Value in two ways:

1. **Improve performance.** High performers strive to deliver more value on elements that drive Net Promoter Scores in their category. They identify and capitalize on their relative strengths to widen leads within their category on elements that matter. They go head to head with the market leader on core Elements of Value and close the gaps.
2. **Change the game.** Companies can change the game by adding new Elements of Value to their category. It is helpful to identify the “white space” in the category where companies may be able to drive value and differentiate. By innovating and breaking through on emotional elements, it’s possible to drive Net Promoter Scores and to differentiate further.

For value leaders like Amazon, the hunt for value is a continuous process. Amazon Prime and Echo are excellent examples of new Elements of Value.

BIOGRAPHIES

**Eric Almquist***Partner, Bain & Company*

Eric Almquist is a partner in Bain & Company's Boston office. He is a leader in Bain's Advanced Analytics practice and a member of the firm's global Customer Strategy & Marketing practice.

Eric has more than three decades of management consulting experience and delivers strategies that work for leading companies. He has led assignments in the financial services, telecommunications, internet, and electric utility industries.

In addition, he uses his expertise in customer strategy and marketing to help clients to develop value propositions, improve customer experience, and implement loyalty strategies.

Eric has contributed to such publications as the *Harvard Business Review*, *Marketing Management*, *Journal of Brand Management*, and *Design Management Journal*. He was the recipient of a Social Science Research Council Foreign Area Fellowship and has served as a Trustee of the Marketing Science Institute.

Prior to joining Bain in 2007, Eric built extensive experience as a leader in the customer strategy sector where he founded one of the first comprehensive marketing science capabilities in the consulting industry.

Eric earned a BA from Stanford University and MA and PhD degrees in anthropology from Boston University.

**Gardiner Morse (Moderator)***Senior Editor, Harvard Business Review*

Gardiner Morse is a senior editor at *Harvard Business Review* where he focuses on marketing, innovation, and technology. He has developed articles on a wide range of topics including marketing technologies, data privacy, health care management, and smart products strategy.

Before coming to HBR, Morse served for 15 years in a range of editorial and business roles with the publishers of the *New England Journal of Medicine*. There he developed and launched numerous publications for physicians and the general public, and served as executive editor of *Hippocrates*, a journal for primary care physicians.

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