Towards an integrated perspective of strategy
The value-process framework

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Abstract

Purpose – The purpose of this paper is to provide a conceptual tool that would help managers to integrate the findings from strategy frameworks such as the value chain, the five forces or the VRIO framework by jointly analyzing the different levers of competitive advantage.

Design/methodology/approach – Building on the extant literature the paper develops a strategy framework that integrates the internal and external dimensions of strategy formulation. To illustrate a practical application of the value-process framework, the paper presents a case study of a project at the German music corporation Sony BMG.

Findings – The value-process framework serves managers as a conceptually unifying analysis tool that contributes to their understanding of the main levers that help to create a sustainable competitive advantage. The framework can be used to visually integrate isolated strategy frameworks by jointly analyzing the different levers of competitive advantage, and to develop consistent and integrated strategies that simultaneously take into account the internal and external perspectives of strategic decision making.

Originality/value – While the existing strategy literature is good at providing specific concepts and tools of strategy analysis, it rarely connects the different dimensions and points out their interdependencies. As a result, strategic analyses are often fragmented and isolated from their broader context. The value-process framework aims to provide an overarching perspective that helps to integrate the different dimensions of strategy formulation.

Keywords Strategic management, Competitive advantage, Value added, Customer satisfaction, Costs, Germany

Paper type Case study

1. Introduction

The discipline of strategic management is “devoted to the problems of the company as a whole” (Andrews, 1980) with the explicit goal to better understand why companies succeed based on a holistic, overarching perspective (Hafsi and Thomas, 2005). This holistic perspective is also emphasized by the majority of the most widely read text

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books, such as Grant (2002), Besanko et al. (2003), Johnson and Scholes (2005), Barney and Hesterly (2005), or Ghemawat (2006). All of these books emphasize the great importance of demonstrating the interdependencies between the different dimensions in strategy development. As Michael Porter (quoted in Argyres and McGahan, 2002) explains:

Unless at some point the company can see the design, see how the pieces fit, and make the interdependent choices consistent, the company is not going to be successful.

However, when working with managers and strategy consultants in executive programs, we often discover that, even though they perform strategic analyses frequently, they find it surprisingly difficult to synthesize their insights from different strategic analysis tools to gain this important holistic perspective that would enable them to derive overarching findings. Many of these managers are familiar with important strategy frameworks, such as Porter’s five forces for the analysis of the industry structure, or the value chain for the internal analysis of a company. Yet, we agree with other scholars in the field (Boardman et al., 2005; Sanchez and Heene, 1997) that, while the existing strategy literature is good at providing specific concepts and tools of strategy analysis, it rarely connects the different dimensions and points out their interdependences. As a result, strategic analyses are often fragmented and isolated from their broader context. We have observed, for instance, that even experienced managers have difficulties connecting the analysis of the internal value chain with the analysis of the five forces that shape an industry’s structure, and they frequently struggle to explain why unique strategic positioning is crucial to business success.

To address these deficiencies, we developed the value-process framework, which, we hope, will help managers to enhance the quality of their strategy development (Kern and White, 2003; Jelassi and Enders, 2004). In particular, our goal is to help managers integrate the different and separate perspectives of strategy analysis into one consistent, holistic model. The framework can be used to:

- visually integrate isolated strategy frameworks by jointly analyzing the different levers of competitive advantage; and
- develop consistent and integrated strategies that simultaneously take into account the internal and external perspectives of strategic decision making.

While we do acknowledge that competitive advantage frequently does not come as a result of conceptual analysis but from trial and error and entrepreneurial insight, we hope that the intuitive visualization of the framework will help to guide entrepreneurial activity by establishing a battery of tests for new business ideas (Ghemawat and Rivkin, 1998).

This article is divided into five sections: Following the introduction, section 2 explains the main elements of the value-process framework in general terms. Section 3 shows how the value-process framework can integrate managerial frameworks of strategic management. We illustrate this integrative perspective by demonstrating how three of the most widely-used strategy frameworks fit into the value-process framework. Section 4 provides a sample application of the value-process framework at the German music corporation Sony BMG. Section 5 summarizes the key implications of the framework.
2. The value-process framework

In order to achieve sustainable success, which is the primary goal of strategic management, a company needs to build up a competitive advantage vis-à-vis its rival companies. Competitive advantage results from a firm’s ability to create value for its customers and to capture parts of this value in form of profits (Brandenburger and Harbone, 1996). These two concepts of value creation and value capturing also constitute the main elements of the framework, which we outline in the following sections.

2.1 Creating value

In order to operate profitably, a company must create customer value that exceeds the costs of providing this value. We find it essential to define the meaning of value in the context of this framework, since the term value has been assigned different meanings in the management literature. Following Bowman and Ambrosini (2000) 2007), we use the term perceived use value, which is defined as “a price that a customer is prepared to pay for the product if there is only a single source of supply”.

Important categories of use value include quality, speed and brand. Quality refers to product characteristics such as functionality, durability and reliability. Speed refers to how fast a company can deliver a given product. Brand entails the perceived traits that consumers associate with the product or its producer, including trust and the emotional benefit derived from that product. Here, it is important to notice that perceived use value depends entirely on the individual customer’s subjective perception. Each customer will perceive the use value of a given product differently depending on factors such as gender, age, or cultural background.

The second dimension that drives value creation entails costs. These include among others the costs for the purchase of resources (labor, material, information and capital), the costs for the recombination of resources in the processes of production, marketing and delivery, and the costs for selling the product (see Figure 1).

Figure 1.
Value is created if perceived use value exceeds costs
Creating value that is positive is a first necessary, albeit not sufficient condition for building competitive advantage. As we describe below, in order to capture parts of this value created, it must also be larger than the value created by competitors, and it must be imperfectly imitable and substitutable (Barney, 1991).

2.2 Capturing value

Even when a company creates substantial value for its customers, we do not know yet whether this value will also translate into profits. Porter emphasizes this point when he states that “satisfying buyer needs may be a prerequisite for industry profitability, but in itself it is not sufficient” (Porter, 1991). Instead, in order to succeed, a firm must not only be able to create superior value over a sustained period of time, but it must also be able to capture the value created in form of economic profits. Porter also points out that “if profitability is the firm’s foremost goal, [strategic] positioning must start with price and cost” (quoted in Argyres and McGahan, 2002). In the terminology of the value-process framework, the value captured, or producer surplus, is the difference between the price charged for the good and the incurred costs. In contrast, the consumer surplus is the difference between perceived use value and price as shown in Figure 2.

To understand the concept of value capturing, it is helpful to differentiate between a monopolistic and a competitive environment. In a monopolistic environment, the framework is the most basic. Here, the use value, as it is perceived by the customer, represents the maximum amount a customer is willing to pay for a product. Hence, in a perfectly monopolistic environment, producers are able to (almost) completely capture the value created, provided that there is no other source of supply and that they are able to price discriminate (Figure 3). In reality, however, companies usually operate in a competitive environment where the consumer surplus provided by the competing players determines the final choice of customers. As a result of competition, the

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**Figure 2.**
The price indicates how the value created is distributed between producers and consumers.
The willingness to pay is reduced by the amount of consumer surplus offered by the best competitor or substitute.

To illustrate this point, we use the hypothetical example of two companies A and B, which are competing in the same industry (see Figure 4). In the absence of competition or viable substitutes, if company A creates a use value of €20 for a given customer, it will be able to charge a selling price close to this perceived use value. This changes when a competitor enters the market. If company B, the best competitor of company A, offers a product with the same perceived use value at a lower price, thereby generating

Figure 3.
Producers completely capture the value created in a (quasi-) monopolistic environment

Figure 4.
The competitive discount is equal to the consumer surplus provided by the best competitor
high potential consumer surplus, customers will only consider purchasing company A’s product if it also lowers its price. We call this reduction in willingness to pay competitive discount.

As was stated above, company A provides a use value of €20 for a given consumer. Production costs and other costs, including marketing and overhead, amount to €12. The value created is thus €8 (step one in Figure 4). The competitive discount is determined by the value creation and capturing of the best competitor. As is shown in step two of Figure 4, company A’s best competitor creates a value of €5 by producing a perceived use value of €20 at costs of €15. As is shown in step three, the best competitor sells its product for €19, thereby creating a consumer surplus of €1.

The important point of this analysis is that as a result of the competitor’s offering, company A will no longer be able to raise its price to the level of perceived use value. Instead, the maximum value that can be captured is reduced by the consumer surplus offered by the best competitor. As is shown in step four in Figure 4, company A now needs to charge a price that is at least marginally lower than €19. If it charged more, the consumer surplus would drop below €1 thereby enticing customers to switch to the competitor’s offering that provides a higher consumer surplus.

In highly competitive industries such as the PC industry, the competitive discount might even increase to the point where it is equal to the entire value created by the best competitor. In our example, company B would decrease the price in order to compete with company A until it reaches a level of €15. Company B would not be able to lower the price beyond this level, since at any price below this amount it would not be able to cover the incurred costs. This is why companies can only compete successfully if their value created is larger than that of competitors.

Figure 5, which summarizes the complete value-process framework in one diagram, provides us with an overarching understanding of the three main levers that influence value creation and value capturing of any given company. These three levers are:

Figure 5.

The value-process framework – to achieve profitability, companies must be able to create and capture value.
In order to achieve a sustainable competitive advantage, any company needs to address these levers to positively influence value creation and value capturing:

- **Value creation**: First, a company must create value by providing customers with a perceived use value that exceeds the company’s production costs (levers 1 and 2). However, only if this value created is greater than the value created by the best competitor, is the company in a position to provide a higher consumer surplus to customers while still capturing parts of the value created.

- **Value capturing**: Furthermore, in order to limit the size of the competitive discount, the consumer surplus, i.e. the “value for money” a company offers, needs to be unique (lever 3). This uniqueness can be achieved, for instance, through exceptional quality, a strong brand image or fast time to market. Only uniqueness leads to a reduction in the number of competitors, which, in turn, also limits the maximum consumer surplus offered elsewhere. Furthermore, to sustain the achieved competitive advantage into the future, it is also important that this surplus offered to the customers be imperfectly imitable or substitutable (Hax and Wilde, 2001; Peteraf, 1993).

### 3. Integrating managerial frameworks of strategic management analysis through the value-process framework

Using three widely-used frameworks of strategy analysis, we can now illustrate the integrative power of the value-process framework. Next, we briefly present the value chain framework, the five forces framework, and the VRIO framework and show how they fit into the logic of the value-process framework (see Figure 6).

#### 3.1 The value chain framework and the value process

The value chain framework helps to address the question of how value is created within a company (Porter, 1990). It does so by disaggregating a company into strategically relevant and interrelated activities. Each primary activity creates value while at the same time also creating costs. Aggregate perceived use value is equal to the sum of perceived use values resulting from the different business activities, and aggregate costs correspond to the total costs that are incurred as part of the different activities. Thus, within the context of the value-process framework, the value chain primarily helps to analyze the left-hand side of the value-process, namely the interaction between perceived use value and costs (see Figure 7).

Generally speaking, this implies that firms increase the value created by investing in value-enhancing activities and reducing costs, especially for non value-enhancing activities (Porter, 1996). For example, a fancy product brand that exponentially increases perceived use value from shoes in the lifestyle segment is likely to justify increased marketing expenses to establish the brand image. If, on the other hand, the manufacturing process of these shoes does not create high perceived use value to the customer, this business activity may be outsourced to reduce costs.
3.2 The five forces framework and the value process
Porter’s five forces focus on the value-capturing dimension of the value-process framework. A company captures large parts of the value it creates if it is able to charge prices that are close to the use value as it is perceived by customers. If, in contrast, prices are driven down by competition, consumers will capture most of the value created. Since this perspective of strategy emphasizes the influence of other actors in the industry, it is also referred to as the market based view of strategy.
Porter’s five forces (Porter, 1979) provide a comprehensive framework to determine the extent to which companies operating within an industry are able to capture the value they create. This ability depends on the relative strength of different forces that influence the attractiveness of an industry. These forces are:

1. the intensity of competition within the industry;
2. the threat of new entrants;
3. the bargaining power of customers;
4. the threat of substitutes; and
5. the bargaining power of suppliers.

Particularly, the first four factors determine the competitive discount, as is illustrated by the upper arrows in Figure 8. As the different actors’ power increases, so does the competitive discount, thereby lowering the customer’s willingness to pay. The bargaining power of suppliers, illustrated by the lower arrow in Figure 8, mainly influences the cost position and thereby the value creation of a company.

Porter’s five forces highlight the fact that profitability depends not only on the internal activities of a company but also on its surroundings; i.e. the industry it competes in. In this sense, it primarily helps to analyze the right-hand side of the value-process framework. One of the primary goals of the value-process framework is to integrate this external industry-attractiveness perspective with the internal company perspective. Industries with highly intense competition, low entrance barriers and readily available substitutes are likely to endure high competitive discounts. Thus, even though companies in these industries might create high levels of value, either through low costs or high-perceived use value, they can only appropriate a fraction of this value in form of profits.

Recent developments in the German fixed telecommunications industry help to illustrate this point. Chiefly due to deregulation and the proliferation of substitutes (such as voice-over-internet-protocol telephony), barriers to entry decreased, while...
rivalry increased. As a consequence, fixed operators reduced their rates and entered into price wars that eroded their profitability. In the terminology of the value-process framework, these industry developments increased the competitive discount, which, in turn, decreased the value captured by fixed operators.

3.3 The VRIO framework and the value process

In contrast to the market-based perspective of the five forces framework, the resource-based view of strategy concentrates on the internal resources and capabilities of a company. The VRIO framework, which was developed by Jay Barney, one of the originators of the resource-based view, addresses four questions dealing with Value, Rarity, Imitability and Organization to determine whether internal resources and capabilities are potential sources of competitive advantage relative to competitors (Barney, 2002):

- **Does a resource enable a firm to exploit an environmental opportunity or neutralize an environmental threat?** This question points to the importance of clearly understanding how a specific resource creates value. In the logic of the value-process framework, resources are only valuable to the extent to which they either help to reduce costs or raise perceived use value.

- **Is a resource currently controlled by only a small number of competing firms?** If a particular resource is not rare, i.e. numerous competitors control the same resource, it is not a potential source of competitive advantage. Only resources that are both valuable and rare enable a firm to achieve a competitive advantage. The question of rarity addresses primarily the right-hand side of the value-process framework, since value that is created based on rare resources, such as a prime location for a retail store, provides unique positioning. This uniqueness in turn limits the competitive discount thereby increasing profits.

- **Do firms without a certain resource face a cost disadvantage in obtaining or developing it?** Only valuable and rare resources that are also imperfectly imitable can be a source of sustained competitive advantage. The concept of imperfect imitability implies that a resource is a source of sustained competitive advantage only if competitors who do not possess this certain resource face major cost disadvantages in developing it internally or purchasing it externally. In the terminology of the value-process Framework, a resource that is cost-intensive to duplicate or substitute for competitors may limit the number of rivals and in turn drive down competitive discount.

- **Are a firm’s other policies and procedures organized to support the exploitation of its valuable, rare and costly-to-imitate resources?** The question of organization raises the issue whether a firm is structured in a way to exploit the potential power of valuable, rare and imperfectly imitable resources and capabilities. Only the realization of the full potential of powerful resources through appropriate organizational structures enables a company to increase value created and value captured.

Overall, if a firm is able to exploit powerful resources, it can positively influence all three levers of competitive advantage, that is: increase perceived use value, decrease costs and reduce competitive discount (Figure 9).
In section two, we pointed out that it is one of the main goals of the value-process framework to integrate the internal company perspective with the external industry perspective. In this section, we used the value-process framework to demonstrate this effect by synthesizing the results of the value chain analysis and the five forces analysis. The visual integration of all frameworks into a single overarching picture (Figure 10) emphasizes the two main strengths of the value-process framework. First, it clarifies the interdependences between the different frameworks. Second, it highlights the three levers of competitive advantage as well as their effects on value creation and value capturing.

4. Sony BMG Germany: a sample application of the value-process framework
In this section, we present a case example of Sony BMG to illustrate how the value-process framework can be applied in a practical setting. In 2006, the e-media
business unit of Sony BMG was pondering the decision whether to launch a mobile telephone service that included voice service and mobile music content. Since this strategic question addressed both dimensions of value creation and value capturing, it presents an ideal case to explain the underlying decision rational using the logic of the value-process framework.

To collect the data for this case, we conducted interviews with senior managers at the eMedia business unit of SonyBMG over a time period of six months. In addition, we analyzed press articles and interviews to cross-validate our findings and to collect further background information on the company and the music industry in general.

4.1 Situation
During the last decade, the German music major Sony BMG has grappled with a ubiquitous crisis that jeopardized the entire music industry. The downswing, caused chiefly by increased music piracy in form of illegal downloads and compact disc burning, led to declining physical CD sales and dwindling total industry revenues. The latter dropped at almost double-digit rates for ten consecutive years.

Striving to find new ways to secure its future, Sony BMG was looking to exploit growth opportunities in the nascent digital music market. Driven by increased UMTS (Universal Mobile Telecommunication System) and multimedia handset penetration, mobile music, in particular, was gaining a strong foothold and promised substantial future potential. eMedia, the department in charge of Sony BMG’s German digital music business, therefore pondered the launch of an own mobile virtual network operator (MVNO) equipped with Sony BMG digital music content. A MVNO is a mobile operator that buys minutes of use from traditional mobile network operators (MNOs) and then resells these minutes to its customers. Sony BMG’s MVNO concept, targeting 12-to-25-year-old mobile users, was designed as a prepaid mobile offer comprising a UMTS enabled multimedia handset and downloadable premium content scattered around in virtual music worlds. A preliminary version of the virtual music worlds included a Rock&Pop, R’n’B & Hip-Hop and Latin-American music world. Each world made genre-related content available for direct download to the mobile phone. The download offer comprised ringtones, news, games, videos and music full tracks.

This business expansion entailed tremendous risk but could have materially impacted the bottom-line performance of Sony BMG Germany for the coming years. In the following sections, we use the value-process framework to analyze the extent to which Sony BMG would have been able to create and capture value by implementing this MVNO project.

4.2 Value creation
We start out with an examination of the value and cost levers and their influence on Sony BMG’s value creation. We do so by integrating the results of a value chain analysis into the Value-Process Framework. First, we identify the value drivers that could have created perceived use value for Sony BMG’s customers; second, we analyze the most important cost drivers during the product’s production process (see Figure 11).

To achieve a differentiated positioning of its MVNO, Sony BMG planned to include multiple value drivers along the distinct business activities of its value chain. Sony BMG expected that the purchase of modern UMTS enabled multimedia handsets would exponentially increase the attractiveness of its prepaid starter packages. In
contrast to competitive prepaid offerings, Sony BMG also wanted to offer fast wireless telecommunication services (i.e. mobile network operator services) based on UMTS technology. In addition, the content component of its mobile offering, i.e. the concept design of the virtual music worlds, was unique and first in the market. Sony BMG hoped to create additional value through unique music-based applications and features. The company also expected to leverage its broad artist roster and digitized music catalogue for all the features of the virtual music worlds. Furthermore, Sony BMG wanted to enhance the perceived use value through large-scale marketing and branding activities to create unique branding and entice customers to become Sony BMG mobile subscribers. The underlying UMTS technology would have enabled Sony BMG to sell and distribute its premium content directly over-the-air to their customers’ handsets.

At this point, it is crucial to discuss how each of the above listed value drivers would have been converted into actual use value as perceived by prospective Sony BMG mobile customers. For example, customers do not appreciate the underlying UMTS technology of a mobile offering but the fast “anytime and anywhere” access to entertainment content. Sony BMG hoped to leverage its value drivers to create use value mainly in three dimensions: quality, brand and speed (Figure 12) (Hungenberg, 2004).

- **Quality (of the product):** Potential customers who download and consume Sony BMG content value its entertaining and fun dimension. Furthermore, they appreciate the “anytime and anywhere” access to the virtual entertainment worlds and the product’s community features that satisfy their interaction needs. Finally, the diverse content applications allow customers to customize their mobile phone configurations. All these features are designed to increase the quality of the product that is offered to customers.

- **Brand:** Customers derive emotional benefits from possessing the starter package of a specifically branded virtual world. For example, a devotee of Latin-American music perceives the emotional benefit of owning a specific “Latino-branded” handset with corresponding genre-related content.
Compared to common GPRS data transfer, the use of UMTS technology creates use value in form of fast downloads and short waiting periods. By providing UMTS-services, Sony BMG enables customers to take advantage of “anytime and anywhere” access to entertainment content. Particularly, customers in context sensitive situations (sitting bored on trains or buses) are expected to appreciate this product feature.

On the cost side, due to its differentiated positioning, the Sony BMG MVNO concept would also have created substantial costs (see Figure 11). First, the wholesale costs of top-end handsets would have been extremely high, which would have forced Sony BMG to highly subsidize its handsets. In particular, the strong bargaining power of major handset suppliers such as Nokia or Sony Ericson would have resulted in high purchasing costs for Sony BMG. Second, the provision of cutting-edge UMTS technology would have resulted in high service fees charged by prospective MNO partners, which was due to the fact E-Plus was the only wireless operator willing to sell air traffic to potential MVNO partners. Third, Sony BMG would have had to pay royalties to their artists for the sale of music related content. Fourth, since no concept brand had been established yet, Sony BMG would have had to develop advertising campaigns for TV, print and online promotion.

In summary, using the value chain we are able to disaggregate the individual activities of the Sony BMG MVNO and gain a preliminary understanding of how each individual activity would have impacted perceived use value, costs and thereby also the overall value created (see Figure 13).

### 4.3 Value capturing

We now focus on the value capturing dimension to determine to what extent Sony BMG would have been able to capture parts of the value created. As we pointed out above, a firm’s ability to capture the value it creates is primarily determined by the size of the competitive discount, which largely depends on the uniqueness of a product. The
The probability that a product is unique is high if a company’s internal resources and capabilities enable a firm to create a unique product and the industry structure is such that it is unattractive for a new entrant to enter the market.

First, we use the VRIO framework to analyze Sony BMG’s resource base and its ability to create a unique product. Second, we apply Porter’s five forces to assess the industry attractiveness and its impact on competitive discount.

The VRIO framework suggests that a company can reduce the competitive discount if it is able to offer a unique product based on resources that are valuable, rare and imperfectly imitable. In our case, Sony BMG’s major valuable resources and capabilities were: the concept design; the artist roster; and their marketing expertise.

- **Concept design:** The concept design of the virtual music worlds was the product’s main added value. Comprising value-added services, special applications and additional features, the concept design was likely to satisfy customers’ entertainment, individualization and interaction needs. Due to its first-in-the-market entry it was not only valuable but also rare. Thus, it could have constituted a source of competitive advantage that would have limited the competitive discount. However, since followers did not face major barriers in duplicating the concept design, this source of competitive advantage would have been difficult to sustain.

- **Artist roster:** Sony BMG’s major corporate resource has always been its artist roster. The artist roster enabled the firm to consider the launch of a mobile service offering to appeal to music devoted mobile users. However, since all three major competitors (Universal, EMI, and Warner) manage similar artist rosters, Sony BMG’s artist roster constituted a valuable but not rare resource.
Furthermore, it was imitable since content aggregators such as Napster or i-Tunes could have acquired the rights to sell digital music content themselves. Thus, the artist roster was not unique and therefore would not have helped to decrease the competitive discount.

- **Marketing expertise:** To launch a new premium product Sony BMG would have had to carry out large-scale marketing campaigns. Due to its profound marketing expertise, Sony BMG in all likelihood would have been able to successfully introduce a new product brand and image into the market. However, since the other competing music majors have similarly strong marketing competencies, Sony BMG’s expertise did not constitute a source of competitive advantage and thus would not have reduced competitive discount.

Overall, the VRIO analysis shows that the concept design was the only source of short-term product uniqueness and temporary competitive advantage. However, Sony BMG did not control valuable resources that were rare and imperfectly imitable at the same time. As a result, the competitive discount would have been relatively small in the beginning but, in all likelihood, would have increased substantially over time.

In a next step, we use Porter’s five forces to assess the industry’s attractiveness from a new entrant’s perspective and analyze its effect on competitive discount. As we discuss next, in particular intense rivalry, low barriers to entry and high bargaining power of customers had a negative influence on the attractiveness of the industry.

At the end of 2005, as the German wireless telecommunications industry was becoming increasingly saturated, rivalry in the industry also intensified. Due to the commoditization of voice traffic, many providers assumed that they could only ensure future growth by offering highly differentiated premium content to its customers. Only one major wireless operator, E-Plus, pursued a different strategy aiming at the low end of the market. E-Plus gained market share selling air traffic to virtual operators, run by discount retailers such as Aldi or Lidl, who offered low-cost mobile telephone services without actually operating a physical network. These virtual operators were able to enter the market because of low technical entry barriers, low exit barriers and their established access to distribution channels. As a consequence, particularly those mobile phone users who were not tied to long-term contracts could now choose from a large pool of mobile offerings, since they only incurred negligible switching costs. These developments increased both industry competition and bargaining power of customers.

To integrate the insights of the five forces analysis into the overarching strategic analysis, we apply the logic of the value-process framework. In the SonyBMG example, three forces influenced the degree of product uniqueness and thus explicitly influenced competitive discount. Due to high threat of new entrants, the high industry rivalry and the resulting high bargaining power of customers, it would have been difficult for SonyBMG to achieve uniqueness with its mobile telephone service. This lack of uniqueness would have increased the competitive discount and thereby decreased overall profitability.

We visually integrate the results of this section in Figure 14. For Sony BMG, the competitive discount would have been substantial over time, especially due to the imitability of its key resources, high industry rivalry and high threat of new entrants.
4.4 Results
Due to high costs, low industry attractiveness and the imitability of its key resources, Sony BMG ultimately had considerable doubts that the project would be profitable. Therefore, Sony BMG decided to put implementation plans on hold and instead started to leverage its resources and capabilities through cooperation with other service providers. The value-process framework helps us to understand and explain Sony BMG’s underlying rationale:

- **Perceived use value area 1 in Figure 15:** Perceived use value was expected to be substantial, mainly driven by features such as UMTS handset, concept design, artist roster, strong concept brand and over-the-air distribution of music content.
- **Costs area 2 in Figure 15:** As a consequence of the differentiated positioning, costs of the project would have been very high, too. In particular, the MNO service fees, which were driven up by the high bargaining power of mobile operators, would have resulted in high costs to Sony BMG.
- **Competitive discount area 3 in Figure 15:** Even if the perceived use value had exceeded the costs, low entry barriers and high industry rivalry would both have increased competitive discount, thereby reducing profitability. In addition, the uniqueness of the concept design would have only temporarily limited the number of competitors. In the long-run, the concept and its underlying resources would have been imitable and no source of sustained competitive advantage. As a result, an increasing competitive discount would have quickly eroded Sony BMG’s value captured.

Overall, our analysis shows that the implementation of the project would have involved extremely high risks for Sony BMG. Since costs and competitive discount
would have been relatively high, only a blockbuster product would have had the potential to create sufficiently high perceived use value. In addition, Sony BMG would have been forced to aim at a very fast amortization of costs and a short payback period due to the high imitability of the project and its underlying resources. Since these risks were considered to be too high, Sony BMG decided to pull out of the project.

5. Conclusion
We started out by presenting the value-process framework, which aims to conceptually integrate previously isolated frameworks of strategic analysis under the constructs of value creation and value capturing. Our purpose was to provide a conceptual tool that would help managers to integrate the findings from strategy frameworks such as the value chain, the five forces or the VRIO framework by jointly analyzing the different levers of competitive advantage. Using the case example of SonyBMG, we illustrated how the framework can be applied to an applied case analysis.

The value-process framework will hopefully serve managers as a conceptually unifying analysis tool that contributes to their understanding of the main levers that help to create a sustainable competitive advantage. In particular, this framework emphasizes the following main points:

- Value creation and capturing are ultimately the only two levers of strategic management. All other concepts in the field of strategic management serve to address one or both of these two core dimensions.
- When creating value, a company needs to focus on use value as it is perceived by customers. Only value that is considered as such by customers will eventually translate into value created.
- In order to maximize the value created, a company needs to optimize the trade-off between perceived use value and costs.
• In order to limit the size of the competitive discount, the value created has to be somehow unique.
• In order to sustain a competitive advantage into the future, a company needs to ensure that its value created is difficult to substitute or imitate, since only value created that can be shielded against current and future competitors will ultimately lead to sustainable high profitability.

As is the case with most conceptual frameworks, there are a number of limitations associated with the value-process framework. First, even though the framework outlines the main drivers of competitive advantage, it does not provide any guidance regarding their operationalization. Second, some key variables have not yet been included. Most notably, the quantity of goods sold has been left out, a dimension which is crucial to explain the success of a cost leadership strategy where profits are not driven by high margins but large quantities. Even though it is possible to include such a third dimension in the model, we decided not to do so in order to limit the complexity of the framework. Third, the framework emphasizes the importance of profitability as the ultimate goal of strategy. However, we do acknowledge that there are also other approaches in the literature of strategic management that take a much broader view of strategy. Most importantly, these perspectives also include other stakeholders such as employees or the external community surrounding a company.

It is important to emphasize that the value-process-framework does not only serve to make decisions at the product level, it also helps to address strategic questions at the business unit or corporate level, concerning issues such as outsourcing, diversification or mergers and acquisitions. Whenever managers contemplate, for instance, the introduction of a new product line or the outsourcing of a business process to an external provider, it will be insightful to analyze how these decisions impact the value that is being created and the ability of their company to capture this value.

Throughout this article we have focused mainly on the managerial implications of the framework. However, we contend that the framework also has relevant implications for the academic realm. In particular, by visualizing the differentiation between value creation and capturing, the value-process framework implicitly integrates the two perspectives of the resource-based and the market-based views of strategy. As Bowman and Ambrosini (2000) point out, each of the two views puts the emphasis on a different side of the value process:

We can see that each approach explains half of the story of profit differences. Resource-based theory explains the source of the company’s ability to bargain with customers from a positional strength, which derives from the company’s ability to offer superior consumer surplus. IO theorizing explains how this bargaining strength possessed by the company influences value capture.

We hope that through the value-process framework business students, managers and academics alike will gain an improved understanding of the interdependencies between these different perspectives.

References
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