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## NEW STRATEGIC ORIENTATION OF FIRMS BASED ON VALUE INNOVATION

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### ABSTRACT

*Adapting of companies to a continuous commercial, social and technological environment change requires new strategic orientation based on strategic innovation. Innovation is one of the main factors that allow firms to achieve success. Disruptive innovation leads companies to rapidly achieve competitive advantage. Strategic innovation creates new markets where rough competition is diminished by reshaping consumer's value. The paper investigates the factors contributing to value innovation in the furniture industry from Maramureş County and setting up a framework for Blue Ocean strategy.*

**KEYWORDS:** *Value innovation, strategy canvas, Blue Ocean strategy, business model innovation*

**JEL CLASSIFICATION:** *M1, M2, O1, O2*

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## 1. INTRODUCTION

### 1.1. The concept of value

In economic theory "value" represents the potential of a product that includes: capital, material, information, energy, and work, presenting it in two aspects: the exchange value and use value (Sullivan & Sheffrin, 2003), (Samuelson & Nordhaus, 2004).

The exchange value in management theory, due to the influence of value engineering, this is the ratio of benefit and cost (Bhagat & Klein, 2010). The benefit is given by use value (utility) functions expressed by the product to meet customer needs. Value, under this definition, is always present in the mind of the customer who is the one who pays.

Use value is the utility of a thing (Cohen & Axelrod, 1984). It meets customer needs and is the bearer of exchange value.

### 1.2. Customer value and customer satisfaction

Customer value refers to the degree to which it adds value to the product - as perceived by the consumer against the actions performed by a SME (De Mozota, 2003).

Interesting theory on customer value, developed by Kotler (1999) assumes that the behavior choices for customers are companies that offer the most value. The author distinguishes between the total value to the customer (the aggregate values of perceived product, services, personnel and image) and customer value (obtained as the difference between the total value to the customer and the total price for the client), his model integrating the main variables involved.

The total amount provided to the client is given all the benefits that it expects from a product or service.

Besides the value of the product and service value, customer value and serviceable means both staff competences or its training, and the image that the company has.

This model fosters a complete understanding of the activity of small and medium enterprises, while enabling the identification of areas in which they can focus their efforts. The model shows

that while the total amount (which is not only the value of the product) and total price (cannot be reduced to price cash) clients have a complex structure, relatively apparent, revealing the ability of small and medium firms to create added value.

One can appreciate that model which enhances the value offered to the customer is an extremely useful reference framework for small and medium entrepreneurs in many situations.

In an attempt to find and retain market niche, small or medium enterprise will build its offer at a level of expertise and added value which in the opinion of entrepreneurs respond best to consumer target market (Papulova, 2006).

## 2. Strategic instrument 'Blue Ocean'

The art of maximizing customer value and to ensure satisfaction (Kotler, 1999) (Sharma, 2009), it is shaped by a strategy of differentiation. It is important when finding an untapped niche market competition to give serious consideration if this niche can generate a sustainable business for the firm.

However, there is a strategy known as "Blue ocean strategy" (BOS) (Kim & Mauborgne, 2004), that promotes a systematic transformation of competition into an irrelevant element. By examining a range of strategic moves made in several economic sectors, methodology highlights six principles that every company can apply for the successful implementation of Blue Ocean Strategy. These principles relate to:

- redrawing the borders market,
- focusing on the big pictures,
- overcoming existing demand,
- ordering different sequences in their proper sequence,
- overcoming organizational obstacles,
- implementation of the strategy.

An organization cannot permanently remain forever at the forefront of the industry in which it operates, and no sector or industry can remain permanently in its peak of development.

BOS is the result of studies and research done by W. Chan Kim and Renee Mauborgne. In over 150 companies, covering more than 30 industries in 100 years of successful activity, BOS is the simultaneous pursuit of differentiation and marketing of certain companies in their attempt to reduce costs and streamline their activities; It is a guide that teaches entrepreneurs how to differentiate from the competition, how to create their own business strategy and how to capitalize on every opportunity within their company. Adopting this strategy it gets far away from the classic pattern of doing business, the golden rule is: innovation is the only thing that will lead to success.

As guiding principles for the adoption of the blue ocean strategy it includes: business development on a niche area has the following objectives:

- Expanding the target group, the way they use the service or product offered in the industry in which it operates and to avoid the risk of choosing the wrong business direction.
- Important planning time, but more the strategy will offer many more advantages (focus on ways to promote innovation and products of competitors, grounded offer customers, the way in which information is distributed, how it promotes the product).
- To avoid the risk that the business will not reach the level that ensures profit solution is that attention to fall on existing demand and to attract those customers who are most numerous.
- If the product shows an exceptional utility for those who buy it if the price is affordable, then surely it was adopted from an idea that works commercially.

- Avoidance of risk by addressing organizational resources, motivation problem etc. avoidance of risk management is based on a fair trial supported by the three E (engagement, expectation, explanation)( Trombetta, 2008).

To adopt such a strategy is to concentrate on objectives, to be unique in the industry in which it is currently differentiate the company through something that attracts.

The operating framework for the BOS and its tools include: strategy canvas, 4 frames of action, six ways of applying the experience of the buyer and the cycle experiences through which the buyer's map, the market for the buyer and indicative ideas create blue oceans in different industries or companies.

## **2.1. Techniques and methods of Blue Ocean Strategy (BOS)**

### **2.1.1. Value innovation**

Value creation through innovation (Sheehan & Vaidyanathan, 2009) is the pillar of blue ocean strategy. Value innovation focuses on the simultaneous pursuit of differentiation between existing market organizations and the ability of organizations to act on account of the needs to reduce costs. The value of innovation focuses on creating an area of delivery paving the way to a market that make competition irrelevant) (Kim & Mauborgne, 2004) (Chang, 2010), by creating a leap in value for both buyers (customers, and for companies).

### **2.1.2. Analysis Instruments**

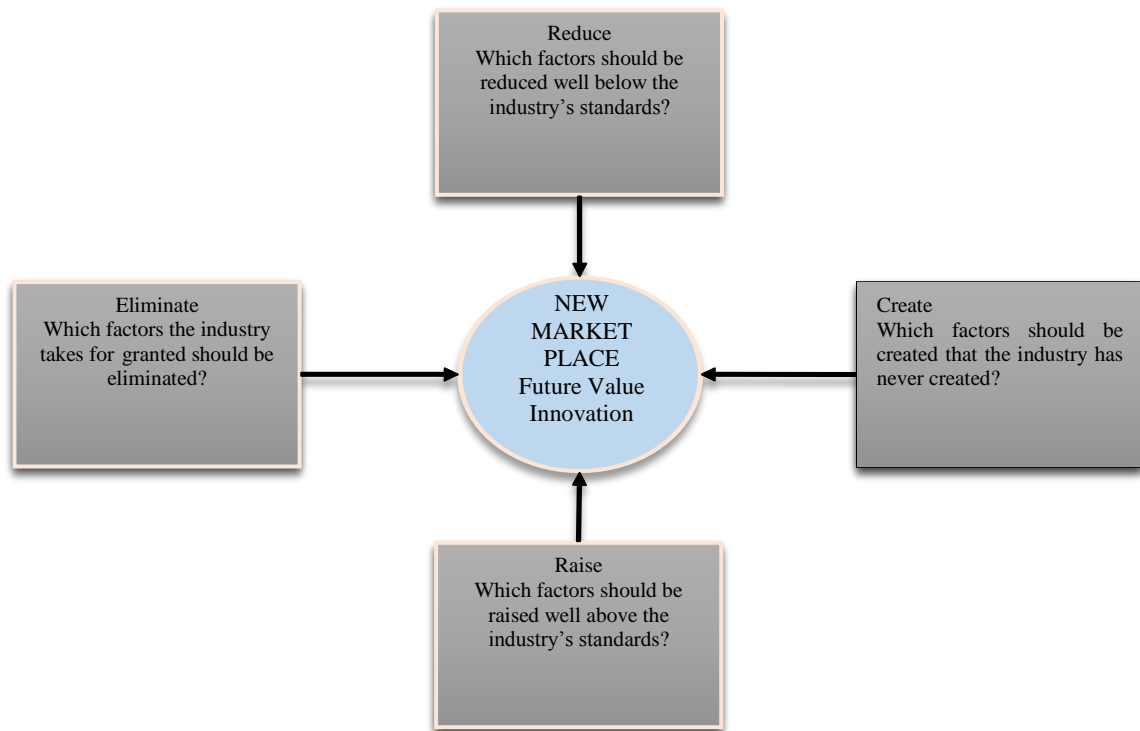
**Strategy Canvas** (Kim & Mauborgne, 2004) is the main diagnostic instrument formulate a realistic strategy that will lead to the creation of a blue ocean. The horizontal axis captures a number of factors on which develops competition in an industry. The vertical axis captures the score/level of the offer to buyers through these competitive factors.

The value Curve is the main component of the Strategy Canvas. It is a graphical representation of the relative performance of companies based on factors of competition existing in the related industry.

#### **Four actions framework**

To reconstruct the buyer's value elements, to help create a new value curve, the four actions framework is applied (Kim & Mauborgne, 2004), (Gresoi & Gheorghe, 2012). The analyst addresses four key questions which help to build the strategic logic and business model used by the organization:

What organization does not need and can be eliminated from the system without affecting market activity? What can be reduced to operate well below industry standards? What factors can be raised well above the industry standard operating? What factors can be created, that has never been offered to customers by the industry?(Figure 1)



**Figure 1. Four actions framework (adapted from: Kim & Mauborgne, 2004)**

**ERRC grid (Eliminate, Reduce, Raise and Create)** (Kim & Mauborgne, 2004)

Eliminate, Reduce, Raise and Create (ERRC) is complementary to the four actions framework outlined above. Directs the companies to answer all four questions and also to act in all four directions to create a new value curve crucial for unlocking and developing a new blue ocean.

<b>ELIMINATE</b>	<b>RAISE</b>
<b>Which factors the industry takes for granted should be eliminated?</b>	<b>Which factors should be raised well above the industry's standards?</b>
<b>REDUCE</b>	<b>CREATE</b>
<b>Which factors should be reduced well below the industry's standards</b>	<b>Which factors should be created that the industry has never created?</b>

**Figure 2. ERRC grid (adapted from: Kim & Mauborgne, 2004)**

### **3. STUDY ON DEVELOPMENT OF STRATEGY CANVAS AND ERRC GRID IN MULTIFUNCTIONAL FURNITURE FIRMS FROM MARAMURES COUNTY**

#### **3.1. Materials and methods of research**

The study aims drawing Strategy Canvas and ERRC grid as basis of formulating the blue ocean strategy at multifunctional furniture producing companies in the Maramures County. For the study were selected three representative companies.

Purchase preference depending on the selected parameters of new products procurement was tested on 70 customers. The target group has been also asked to qualify 9 (nine) selected parameters/features of the furniture on a scale of 1 to 10 (1 Unsatisfactory ... 10 Maximum level of satisfaction).

The three analyzed companies are operating on the domestic market from over 20 years, the companies are stable and they are acting on a mature market. The main reason of producing multifunctional furniture starts from ensuring maximum satisfaction of their customers. The specialized production is the main objective of these firms. Competition is attenuated due to strategic thinking of creating a new market, differentiate products and innovate value. Adoption of the Blue Ocean Strategy premises are high.

The concept of multifunctional furniture started from the need to meet the storage requirements and obtain the desired comfort in small homes. Thus, as an alternative to massive furniture, heavy and occupying much space, the designers of the three companies brought the spotlight modern furniture, affordable, easy to install and operate. It is distinguished by its modern design and elegant, and the aesthetically integrates seamlessly into existing homes.

The use of multifunctional furniture is recommended due to the following reason: multifunctional furniture is an ingenious solution and is the answer to the challenges of designers to contemporary lifestyle, which requires both optimal use of space and budget. Thus we speak of technology, ergonomics and design.

Perfectly suits people who like innovative products and are open to new ideas. Multifunctional furniture is modern and elegant design and the aesthetic, it fits perfectly in now-a-day homes. Modern furniture fulfills several purposes when, for example, we have to use the same room as space sleeping well as office or guests room. The most common example is the couch or cubicle that can turn into a bed for two. But the number of innovations of this kind is much higher. For example, a wardrobe can make a bed for one person, a table of living can be transformed into a working desk or dining room, an office table may hide a bed, a dressing can hide a bed two people etc. Acquisitions of this kind are ideal for small apartments, especially those with one room, which often must play a triple role: space for relaxing, sleeping and working. In such a room, a "hidden" bed in the wall (in which the body and it takes the form of furniture) can be very helpful when you get visitors. For example, an office table that "withdraw" in wall decoration can be a novel, but also a functional cabinet.

The 9 parameters selected within the Study were: price, design, ergonomic functionality, comfort, multiple use, easy handling, accessibility, technical. These parameters are common to products made by all three companies called forward MF companies. To view the profile of these companies (Strategy canvas) the products compared were with other companies in the industry and with Classic Furniture Companies. The results of collected questionnaires reflects an average score of the three companies. The representation of the result is a blue curve coded with MF on the Strategy Canvas.

### 3.2. Study results

After collecting the responses from the 3 companies, they were biased and synthesized into the 2 tools used in the analysis of Blue Ocean Strategy formulation.

The results show that the average score obtained from the answers of customers is for MF companies very high, over the other industries' at the features:

- Easy to use,
- Excitement which indicates that the customers prefer innovative products which fit to their to contemporary lifestyle
- Easy to install and operate.

These features can be developed and create a unique, differentiate and new market place for the analyzed companies. Opposite, customers do not value so much technical, it can be subject of elimination while calculating the leverage between value and costs. (Fig.3, 4, 5)

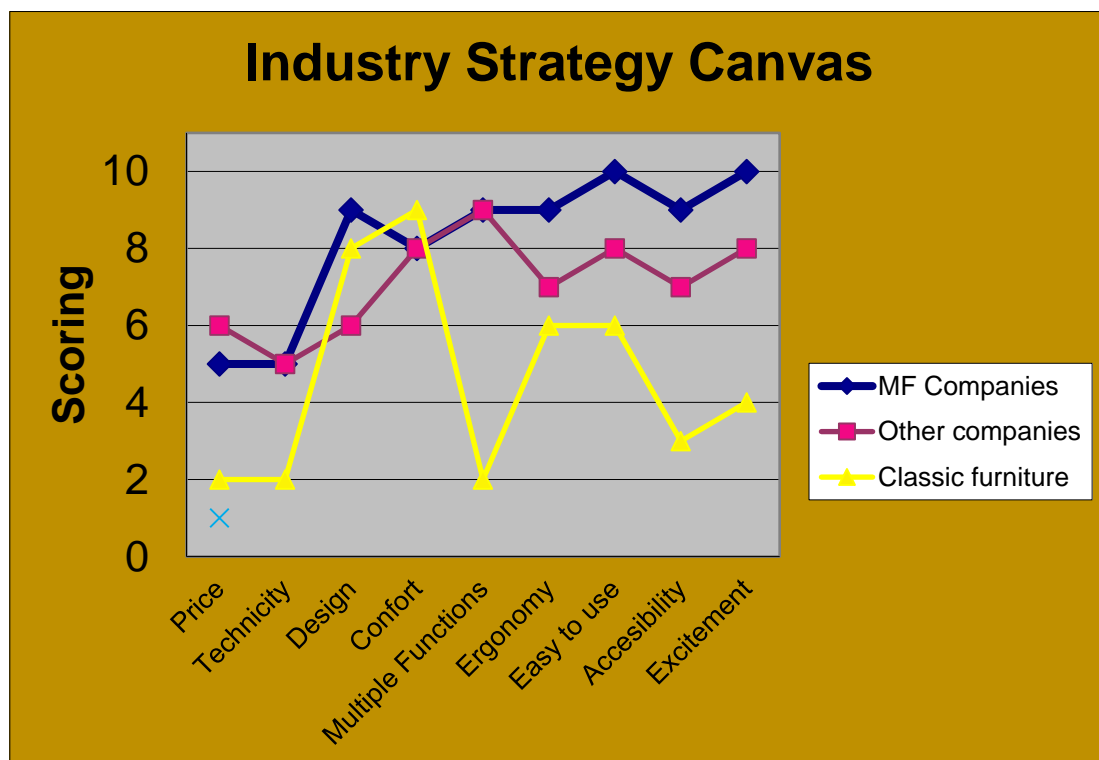


Figure 3. Plot of Strategy Canvas

Source: <http://www.theinnovativemanager.com/strategy-canvas-template>

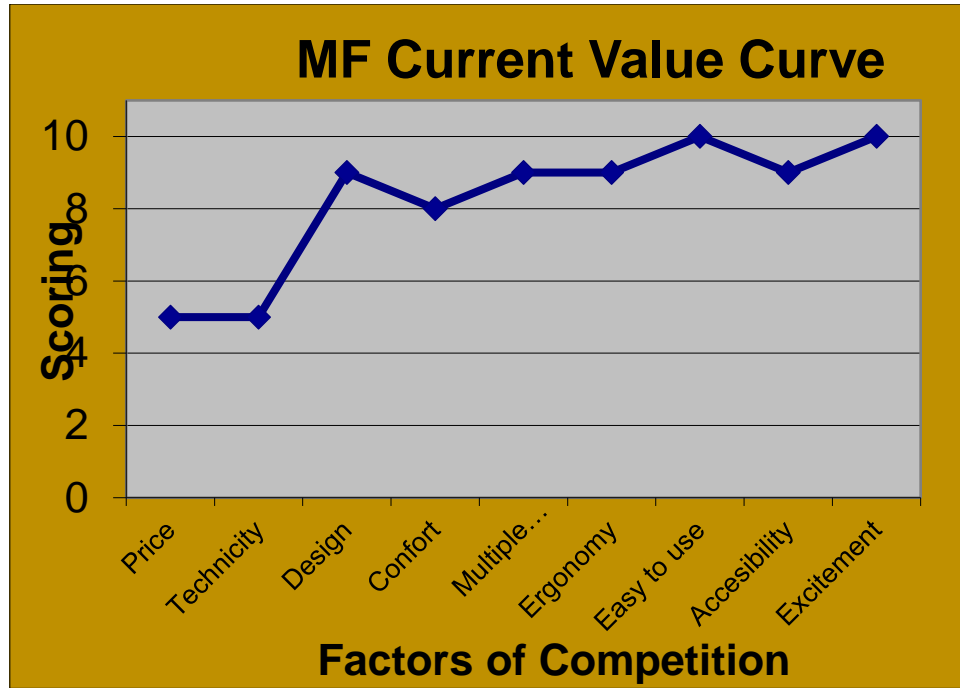


Figure 4. Plot of Strategy Canvas–Multifunctional Furniture Companies Value Curve



Figure 5. ERRC grid

#### 4. LIMITATIONS IN THE STRATEGY

There are three obstacles organizations are facing with:

*Cognitive obstacles.* The need for strategic change has to be discussed with every employee to avoid resistance and to perform better management of change. Members of the organization have to give up preconceptions, if they want to benefit from functional, efficient and effective changes.

*Limited resources.* The higher is the change strategy, the greater is assumed that there is a need to identify the resources needed to implement it, the more time and resources it's needed to get expected results; many organizations cannot find resources in extreme situations.

*Motivation.* How to motivate staff to move quickly and tenaciously in a different direction than usual? Here is to be found a critical equilibrium between the management and training based on employees' work, difficult but tangible, by developing organizational culture.

#### 5. CONCLUSION

By advising the studied companies to fill the grid with the disposal and reduction, as well as growth and creation, it creates premises to obtain four immediate benefits:

- 1) The companies are forced to pursue simultaneously differentiation in the market and reduce costs. This disrupts the chain of compromises made by organizations as a result of cost-value relationship and opens the opportunity to reposition themselves in the market;
- 2) Immediately warns companies that are focused only on raise and creation, which increases the structural costs and often recalibration products and services under the new competitive paradigm once the market - a condition common to many companies;
- 3) Facilitates rapid market understanding by managers at every level, creating a high level of engagement and involvement in the strategy;

Completing the grid is a difficult task and challenge for management. This leads companies to a deeper analysis and assessment of each aspect of competition in a particular industry. As a result, companies can discover the range of default assumptions never explored before in the competitive environment.

There are very few businesses that enjoy the privilege of monopoly power in the area chosen as field operations. Most markets grow globally; they increase congestion and last but not least are becoming increasingly competitive. Thus a company to achieve commercial success needed to do something different, and so to stand out among the competition. Differentiation is expensive, time-consuming and functional differences are quickly copied.

To obtain a significant competitive advantage adoption of Blue Ocean Strategy is valuable in the idea of being first in a new market or be better than others in an existing market.

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