

# OUTSIDE THE BOX

## In search of value

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Value is created through work. In some cases it is created by the application of craftsmanship; in

others, the investment of raw physical labor; and in others, through process design. Exceptional value does not occur magically. It is created through the application of intentional and sustained effort.

Value creation is not a static process. Once about industrialized efficiency and mass production, it is now something very different.

Jack Hughes wrote in *Harvard Business Review*, “the value of products and services today is based more and more on creativity — the innovative ways that they take advantage of new materials, technologies and processes. Value creation in the past was a function of economies of industrial scale: mass production and the high efficiency of repeatable tasks. Value creation in the future will be based on economies of creativity: mass customization and the high value of bringing a new product or service improvement to market; the ability to find a solution to a vexing customer problem; or, the way a new product or service is sold and delivered.”

Value creation is becoming more complex with

increasing interest from buyers, not only for the physical attributes of what defines a product, but also the effects of how the product was made, its social value and a host of other descriptors related to the how and the why behind the product.

Value creation at any level is theoretical until it interacts with the market.

### Capturing value

Value capture results from retaining a share of the value from each business transaction in such a way that the enterprise captures sufficient value to warrant the investment of time, talent and money, but not so much as to deter others from conducting business with you.

People buy because they perceive they are receiving value greater than the purchase price. Sellers who realize insufficient value cannot sustain business operations, while attempts to capture excessive value often result in the loss of buyer interest.

The key is to balance the interests of both parties, thus creating the dance between buyers and sellers. That’s a challenging dance in a brand-identified competitive market, and an extremely difficult

challenge in a commodity or mass-market scenario.

### No guarantee

Obviously creating value doesn’t guarantee that it will be harvested.

This fact, in conjunction with the emerging models of value, places

commodity producers at a crossroad — either accept the *status quo*, or pivot into a model that yields a differentiated value proposition.

Choosing the commodity route demands doubling down on cost control, remaining in the crosswind created by market and weather risk, yielding to the pressure of increasing acres and herd size to capture economies of scale, and living with a narrowing window to successfully engage the next generation. In the commodity world, wealth is generated by land appreciation, and commitment to lifestyle typically overrides other economic motivations.

### Differentiate

Generating a differentiated value proposition requires the application of creativity, the process of re-imagining the business and

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alternative approaches to deployment of resources. In this scenario, wealth is created from the business model itself, not just from asset appreciation. Customer lists, company reputation and brand equity, established processes, quality of staff, product and service offerings, collection and utilization of data, and knowledge transfer all contribute to the creation of value that attracts willing customers motivated to acquire that value.

Under this scenario, wealth is recognized as multidimensional, and cash flow allows for retained earnings sufficient to maintain and advance the business, while more time is spent working *on* the business instead of *in* the business.

Under the value proposition mindset, leadership focuses on one of two questions: How do we become best in the world? Or, what could we accomplish if we took a new and unique direction?

Value creation and capture are worthy of deliberative attention by management and leadership — especially in times of challenge and uncertainty. |



Editor’s note: In “Outside the Box,” a regular column in both the *Angus Journal*® and the *Angus Beef Bulletin*®, author Tom Field shares his experience as a cattleman and his insightful perspective on the business aspects of ranching. Field is director of the Engler Agribusiness Entrepreneurship Program at the University of Nebraska–Lincoln, where he holds the Paul Engler Chair of Agribusiness Entrepreneurship.