
Add Value or Someone Else Will



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The lure of maximising profits at the cost of creating customer value can be devastating in the long term.

In 2006, I moved to Mumbai and as soon as I landed, I looked for a taxi. A smiling taxi driver came up to me and asked me where I wanted to go. When I told him my location, his smile vanished. He was almost leaving when he stopped and asked me if I would be willing to pay Rs350, the fare for a long distance (and more profitable for him) carriage.

‘But I will pay by the meter? That is why you have it? Isn’t it?’ I said, irritated at the attempt to hustle me. The cabbie left without even arguing. I took the next taxi and paid Rs350 when I should have paid Rs100.

Even afterwards, the taxi experience annoyed me. Faulty meters, smelly interiors, no air-conditioning, bad maintenance and a jerky ride that tossed you back and forth every time the brakes were applied.

Everyone wants to grow. Therefore, the taxi driver’s inclination to increase profit cannot be frowned upon. However, he should have known that increasing profits without increasing value is a short-term high and, much like narcotics, can be devastating in the long term.

Short-term gain, long-term pain

While taxi drivers continued to increase their profit through various means, the value delivered to the customer diminished. The void between price charged and value delivered expanded.

Then, in 2007, a new taxi service came and happily filled the void. While, the fare was about 20% higher, the value delivered was vastly superior.

Proper meters, clean interiors, well maintained vehicles, effective air-conditioning and most importantly, the taxi never refused to go where you wanted to go. In fact, the system remembered your most-frequented destinations saving you time reciting addresses repeatedly.

All in all, you could book a taxi in an instant and get transported to your destination comfortably, in time, and without looking like a zoo animal.

If you are not providing value, someone else will. Today, the old taxi service is without options except to ask the government for concessions. The new tax service, meanwhile, continues to grow. Now, it operates thousands of taxis and has spread across many cities of India. This reminded me of a parable I used in a training programme.

The coal merchant

There once lived a coal merchant who had a shop in a village. Every day, the coal merchant would purchase coal from his suppliers at Rs100 and sell at Rs150, making a profit of Rs50. He wanted to grow and was impatient to increase his profits.

One day, an old friend stopped at his shop and made him an extraordinary offer: 'I will sell you coal at Rs50', he said.

Unable to conceal his excitement, the merchant asked him 'How will you do it? The market rate is Rs100, why are you selling at Rs50?'

The friend looked around to make sure that no one was listening, he bent closer to the merchant and whispered in his ears: 'this coal is very low quality but your customers wouldn't know. They are little black rocks after all'

After seeing his friend off and tempted at the additional profit that he could generate, the merchant turned to his father.

'The objective of business is to make profit, isn't it?' he asked his father.

'Sure' his father answered.

'...and to grow your business, you need to make more and more profit' he said further.

'Yes' said the father.

'My friend is going to supply me coal at half the price. It is low quality coal but it will double our profit' said the son, 'I am confused. Is it dishonesty to try and increase your profit? We are not here to do charity either, are we?'

'No, you are right, we are not here to do charity. We run business and profit is our right. But, What is the customers right?' asked his father.

'To get coal' said the son.

'Not just that. It is to get the benefit of the coal. They pay so that they can burn this coal and use that energy to make their lunch' said the father, 'right now, you are extracting the price for the coal and delivering the benefit of the coal to the customer. If you buy the bad quality coal, you are still extracting the price but are you delivering the benefit? Will the customer, after buying the bad quality coal, get the energy that they paid for?'

'That is dis-honesty son. Seeking to exert your right and ignoring the customer's right. Seeking to create profits without delivering the benefits.'

The lesson from the story is simple. There is no right to profit greater than the obligation to provide value.

Companies must never forget that their customers are under no obligation to part with a greater amount of their spending, just so they can show up on the Fortune 500. Their growth must be with the customers, not despite them. The Mumbai taxi service is a case in point.

Add value

This could appear to be a fight between large corporate structures and small mom-and-pop structures. Seeing it like that is a fallacy.

Looking at the retail sector in India, the biggest organised retail chains have had to face defeat at the hands of small neighbourhood retailers in numerous cases. The reason: convenience and personalised service. The neighbourhood retailer knows you by name even though he ensures that you never have to travel to his shop. His delivery person comes every day to your house, sometimes even for small (unviable) orders. The retailer celebrates festivals with you, congratulates you on your achievements, and participates in your sorrow, makes small talk with you about the upcoming cricket match and gives you credit (without filling up a form!). Clearly, there is a relationship that is more valuable to the customer than the lower price or choice that a supermarket offers.

The only fight here is to create value for the customer, in some way, whatever way. Bigger is not better. Focused is better. There is always some value that you can add. Where there is a will to create value, there are many ways, and not all require you to be a large corporation willing to make million dollar investments.

Large corporations and entrepreneurs, all want to grow and increase their profits. However, trying to increase profits without increasing value delivered to the customers is not only unfair, it is just bad business.

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