



# Continuous Improvement Associates

## The Attractiveness Principle

We hate losing customers when our product doesn't meet their needs. Why must we make choices?

Here's the structure that describes why.

Systems Thinking:  
It's more than you think.<sup>SM</sup>

### Why is this important?

Because it's tempting for an organization to try to be "all things to all people." But doing so leads to failure. With a shared understanding of why this is true, it's easier to gather the will to make the necessary choices.

### Choices, choices ...

A business must choose among the factors that make its business more attractive and focus on the ones that define "what it wants to be." If it tries to have the highest quality product, the lowest cost and the best service (e.g., delivery time), it fails because it's overwhelmed on at least one of these dimensions.

### Restaurants aren't the same

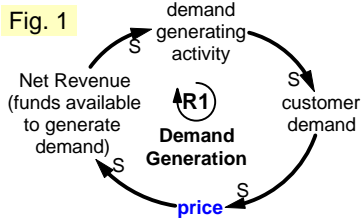
For example, every restaurant knows it cannot (at the same time) be the best at everything. McDonald's makes the "low prices and relatively fast service" choices (with food quality not as good), while Out-back Steak House makes the "quality food at reasonable prices" choice (with long lines to get a table).

### The archetype

The Attractiveness Principle is an archetype that describes this dynamic. Systems thinking archetypes are fundamental structures that often occur in systems. The word comes from the Greek *archetypos*, meaning "first of its

### What is systems thinking?

Seeking to understand system behavior by examining "the whole" ... instead of by analyzing the



Demand grows from a reinforcing process.

kind." *The Fifth Discipline* by Peter Senge (1990) describes many of the common archetypes, but not this more complex structure.

### A growing action ...

Figure 1 shows the basic reinforcing feedback, **R1, Demand Generation**.<sup>\*</sup> Hiring more sales persons or more advertising are examples of **demand generating activity**.

### ... that hits a limit.

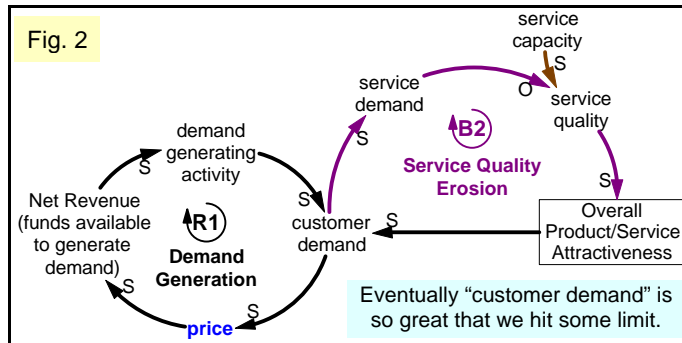
Figure 2 shows that, as **customer demand** grows, **service demand** increases. Over a certain level, with a fixed **service capacity**, **service quality** declines to reduce **Overall Product/Service Attractiveness** and finally to reduce **customer demand**. This is the limiting loop **B2, Service Quality Erosion**.

### Multiple factors

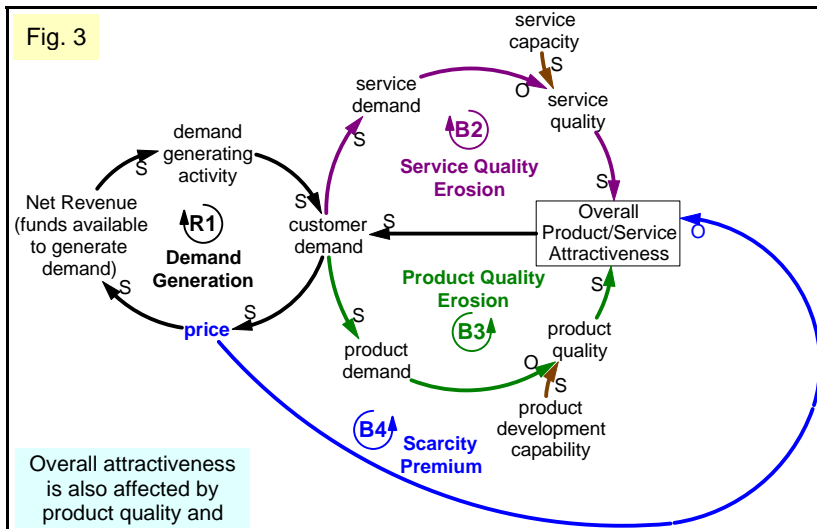
Figure 3 shows that growth is similarly limited by **B3, Product Quality Erosion** and **B4, Scarcity Premium** (greater demand allows increasing **price**, but also reduces **Overall Attractiveness**).

These are the basic three: **product quality**, **service quality** and **price**. We must choose among them.

When the choice, for example, is to not emphasize **service quality**, it leads to the statement attributed to Yogi Berra: "That place is too popular, nobody goes there anymore."



Eventually "customer demand" is so great that we hit some limit.



\* See *The Engines of Growth* for descriptions of many of the reinforcing feedbacks that drive growth.

**Corrective action**

Figure 4 shows that as demand grows and we hit limits, we can counteract the limiting effects. We can invest in service capacity to increase **Service Focus (B5)** or we can invest in product development capability to increase **Product Focus (B6)**. We can even lower price to increase attractiveness.

**But ...**

But each of these "solutions" has a "side-effect" (Figure 5). Whether we invest in service capacity or invest in product development capability, we increase costs and decrease Net Revenue (**B7, Service Quality Burden** & **B8, Product Quality Burden**).

And lower price, also decreases Net Revenue (by reducing the **Scarcity Premium**).

So it's a Gilda Radnor world, "There's always something!"

**The foundation archetype**

The Limits to Growth archetype (see **The Customer Service Peril**) underlies The Attractiveness Principle, which has a reinforcing feedback loop that is subject to multiple limits to growth.\*\*

**An important caveat**

Sometimes different factors are "trade-ons", not "trade-offs". For example in the semiconductor industry

higher quality gives higher yields and lowers cost per chip. It also gives higher reliability to justify higher prices. The same

can be true of health care: early, high quality interventions can reduce overall costs.

Beware false choices.

**Conclusion**

This structure makes clear the importance of an explicit and shared understanding of the need to make value proposition choices. We can fight over the choices, but we shouldn't fight over the need to make them.

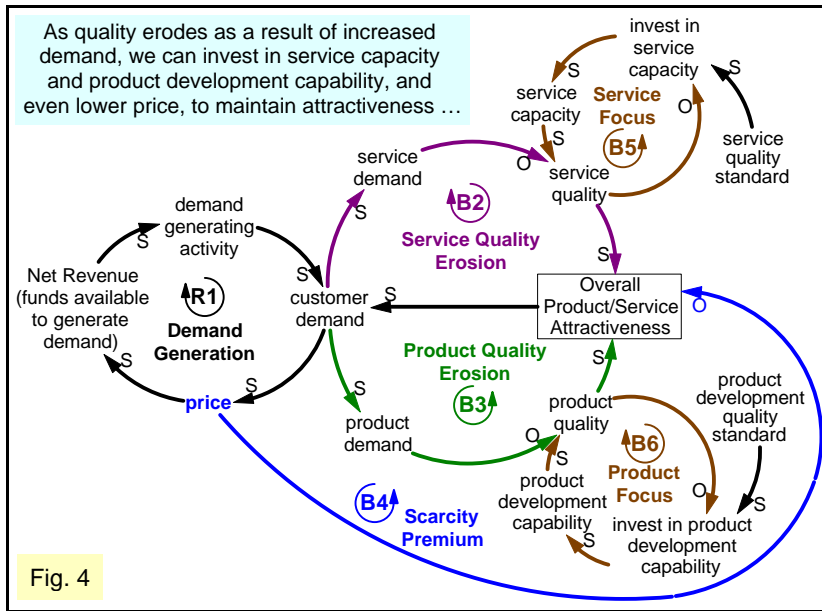


Fig. 4

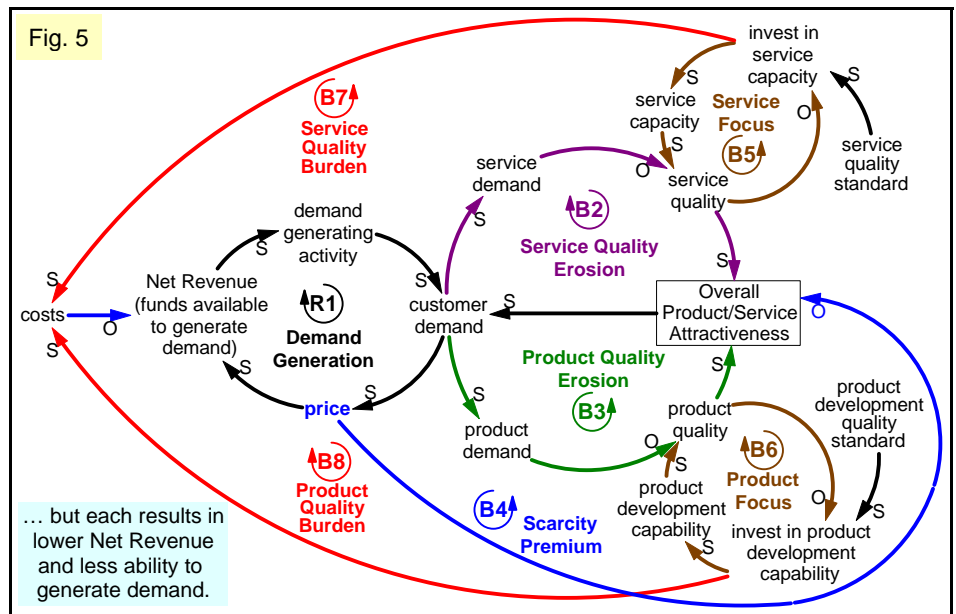


Fig. 5

**Feedback is Power - Tap It**

Nothing grows without a reinforcing feedback. And nothing grows forever; we always hit some limit. Often we hit multiple limits and attempt to address them alternately. Pushing in on a balloon in one place causes it to bulge in another.

**Workshop Benefits**

Explicitly examining this structure helps groups understand the need to define a targeted "customer value proposition" (see **Create Strategic Focus**) and to identify the processes that support providing that value. Groups and individuals generate considerable unproductive conflict when their actions are based on different points-of-view about what is the "right" value proposition.

A group can also look for potential "trade-ons" that provide "double-barreled" value.

**We Can See the World Too Differently ... or in Too Much the Same Way**

"How is it that one way of seeing the world becomes so widely shared that institutions, technologies, production systems, buildings, cities become shaped around that way of seeing? How do systems create cultures? How do cultures create systems? In what ways may we be looking at a system through one shared lens?" Donella Meadows, "Thinking in Systems," 4/11/93

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\*\* This can also be seen as multiple instances of the "Growth & Underinvestment" archetype.