Capturing the value proposition of a product or service

Position paper for the international workshop on business models
Lausanne, Switzerland, 4.10.2003

Otto Petrovic and Christian Kittl
University of Graz and evolaris eBusiness Competence Center,
Hugo Wolf Gasse 8, 8010 Graz, Austria
<otto.petrovic|christian.kittl>@evolaris.net

In „Developing Business Models for eBusiness" (Petrovic, Kittl and Teksten, 2001) we describe what we understand under the term "business model": It describes the logic of a business system for creating value, that lies behind the actual processes. Seven sub-models, that for the elements of a business model, were identified in the paper. They are shown in Figure 1:
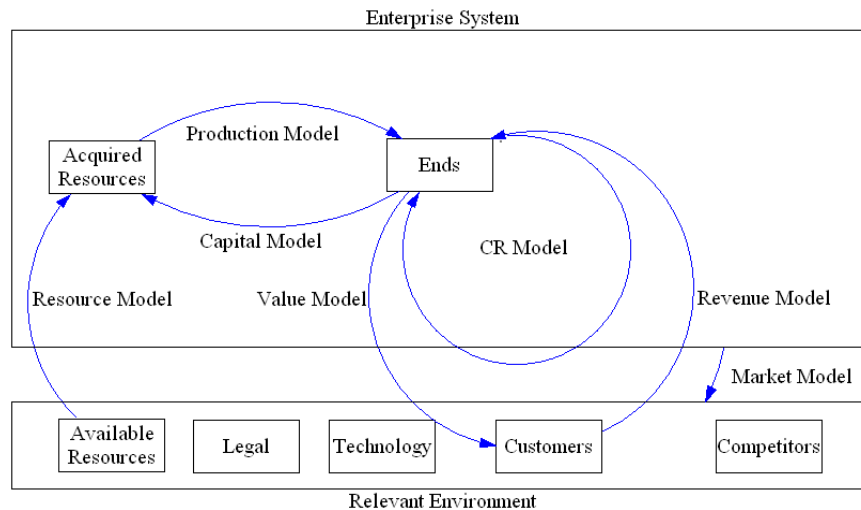

Fig.1: Elements of a business model

The arrows depict the flow direction of the respective focal resource of each sub-model. The seven sub-models are:

1. Value Model—Describes the logic what core product(s)/service(s)/experience(s) are delivers to the customer and other value-added services derived from the core competence.
2. Resource Model—Describes the logic how elements are necessary for the transformation process, and how
to identify and procure the required quantities.

3. Production Model—Describes the logic how the elements are combined in the transformation process

from the source to the output.

4. Customer Relations Model—The logic how to reach, serve, and maintain customers. It consists of the

following sub-models:

- Distribution Model—The logic behind the delivery process.
- Marketing Model—The logic behind reaching and maintaining customers.
- Service Model—The logic behind serving the customer.

5. Revenue Model—Describes the logic of why, how, what, and when the company receives compensation in

return for the products.

6. Capital Model—Describes the logic how financial sourcing occurs to create a debt and equity structure,

and how that money is utilized with respect to assets and liabilities, over time.

7. Market Model—Describes the logic of choosing a relevant environment in which the business operates.

The value proposition is the central element of the value model. As stated above it describes the logic of what products and services are offered to the customer. This logic can be clarified when looking at the customer needs and wants as value always stems from their satisfaction. These needs and wants in turn arise in the context of customer processes (Österle, 1995 and Österle, Fleisch & Alt, 2001) and thus companies have to strive for supporting the processes to the maximum possible extend when thinking of improving the value proposition. (On the other hand each service is also associated with costs and the company therefore has to take further variables into account when deciding whether to offer it or not. Figure 2 shows the basic logic behind the decision process for an electronic services (eService):
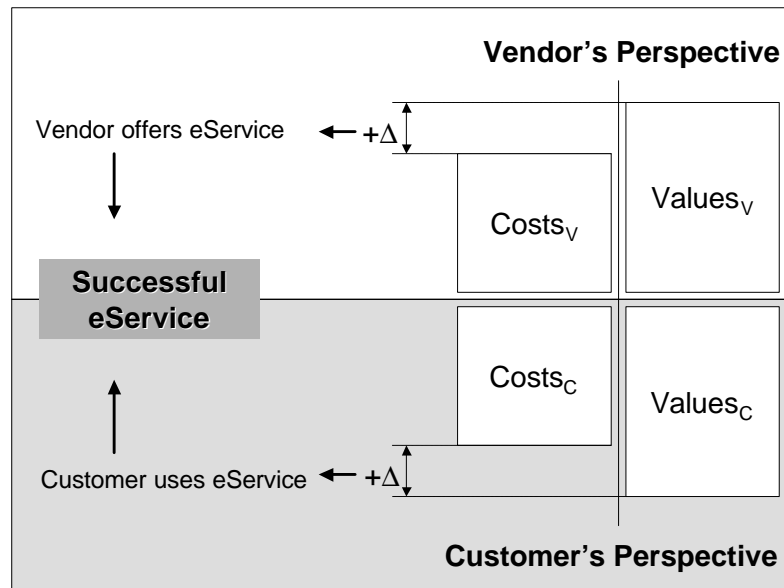
Fig. 2: Determinants of a successful eService

The logic behind supporting a whole customer process as a service integrator or only one or some certain steps within it via offering according services depends upon the core competencies of a company. In both cases it is necessary to investigate the customer wants that are to be satisfied. This can be a very difficult task as one hardly can talk to all potential customers and people sometimes are not even able to say what they need. Pure questionnaires or interviews are not sufficient - innovative concepts are necessary to hear the "voice of the customer". Furthermore the process within which the needs arise differ from customer to customer – in many cases it will be necessary to group individuals into segments and investigate only those that are most important. Finally, customer wants and needs should also be ranked in order to be able to evaluate the value proposition of a service later.

If all customer needs are known it has to be investigated how a product or service contributes to satisfying them. A very good way to do this is via looking at the attributes and match them with the customer wants. Quality function deployment (QFD was developed by Shigeru and Akao in the late 1960s, the first book on quality function deployment was published in 1978 in Japanese language (Shigeru and Akao, 1978)) is a method that is very well suited for this task and has been deployed heavily in product engineering. At its core is a matrix that shows which needs are addressed by which product attributes and it reveals if certain needs are not covered or if certain product attributes are not useful for the customer.

customer process:
e.g. real estate property

eServices:
e.g. www.your home.ch

| trigger |
| information sourcing |
| buy/build decision |
| information sourcing |
| assure financing |
| information sourcing |
| buy insurance |
| … |

BM: "We provide all relevant services for the process of buying or building a real estate property"

information services → support services → cost calculator → …

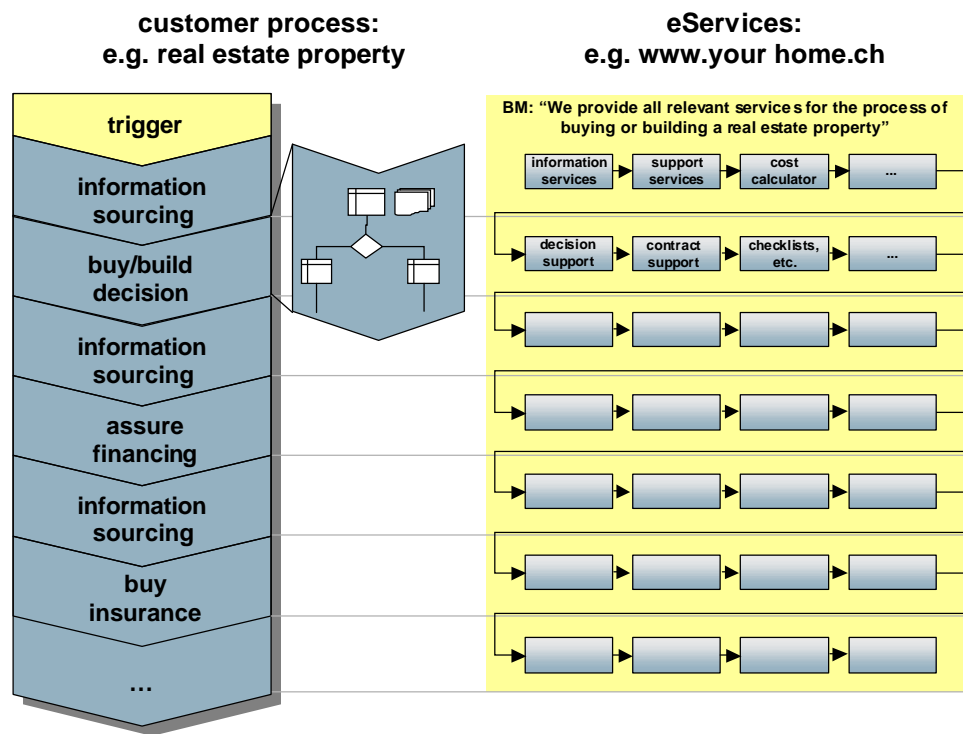decision support → contract support → checklists, etc. → …

Fig. 3: Role of a eService in the customer process

Conclusion:

In order to describe a value proposition it is necessary to achieve the following points:

a) Know the customer processes which should be supported by the product or service. These processes vary for different customer segments and have to be looked at separately whereby a concentration on the most important ones can be necessary.

b) Know the needs and wants that arise in the context of individual customer processes. Furthermore a ranking of these needs according to their relevance is essential for evaluating a value proposition of a service or product. Collecting this information is a taunting, but major task and in the majority of cases it is not enough to conduct interviews and simple questionnaires. Instead new concepts like focus groups or lead user concepts have to be employed.

c) The attributes of the companies products and services have to be opposed to (or in case of the development of new services: to be derived from) the customer needs and wants. Quality function deployment is a method very well suited for this task. From its

main matrix it can be seen which product or service attributes satisfy which needs and how the sum of these attributes thus delivers value to the customer.

d) For the integration of a product or service into a business model it is necessary to investigate the whole customer process. The value proposition will finally be defined by the quality of the overall solution offered to the customer. A very good service supporting only parts of a process can be worth less than a lower quality service that supports the whole customer process.

References:

Österle, Hubert: *Business Engineering Prozeß- und Systementwicklung* (Business Engineering Process and Systems Development) Vol 1; Springer 1995

Österle, Hubert; Fleisch, Elgar and Alt, Rainer: *Business Networking: Shaping Collaboration Between Enterprises*; Springer 2001

Shigeru, Mizuno; Akao Yoji (ed.): *Quality Function Deployment: A Company Wide Quality Approach.* (in Japanese) JUSE Press 1978.

QFD Institute: *Quality Function Deployment*, www.qfdi.org; accessed 09-27-2002