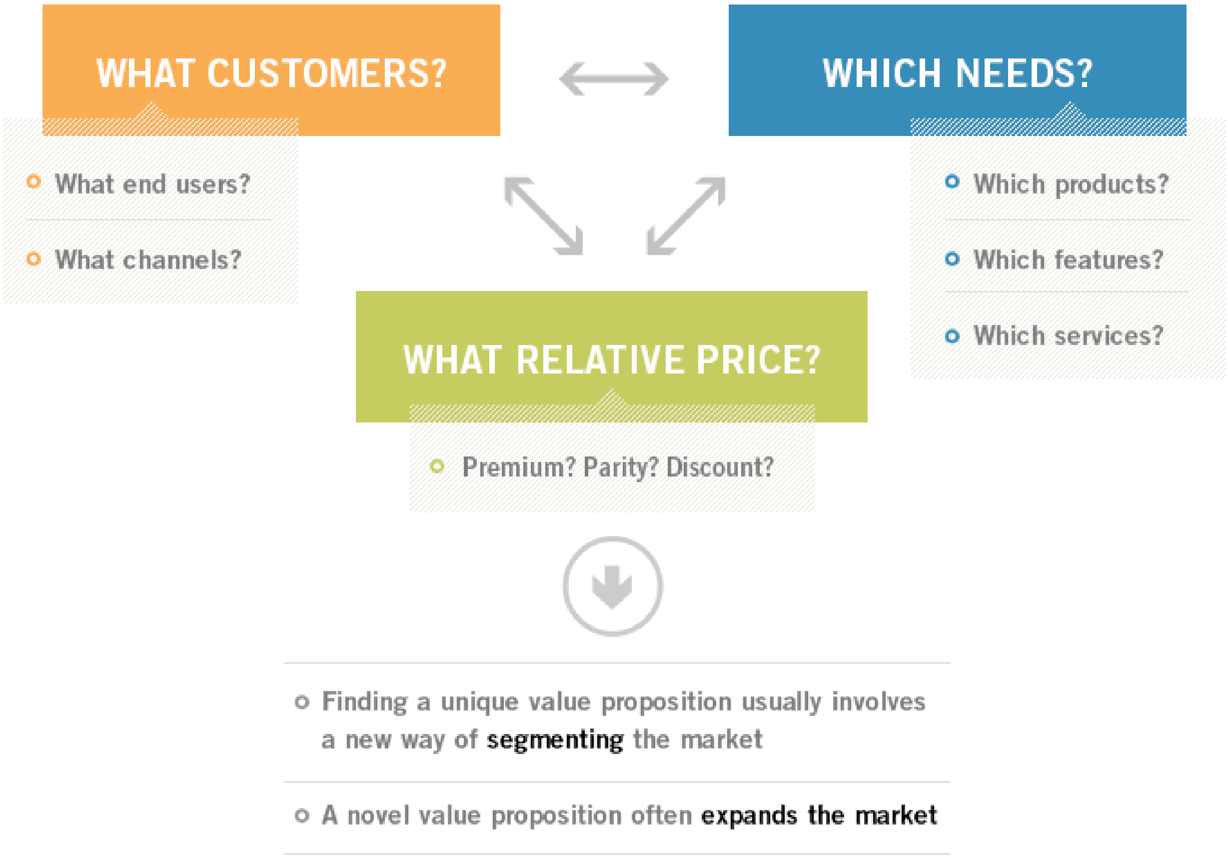
Unique Value Proposition

A value proposition defines the kind of value a company will create for its customers. Finding a unique value proposition usually involves a new way of **segmenting** the market. Often, a novel value proposition **expands the market**. For example, until the iPad came along, customers didn't realize they wanted tablets—but Apple effectively created a new demand.

While the value chain focuses internally on operations, the value proposition is the element of strategy that looks outward at customers, at the **demand side** of the business. Strategy is fundamentally integrative, bringing the demand and supply sides together.

Defining the Value Proposition: Three Essential Questions



1 Which customers are you going to serve?

Within an industry, there are usually distinct groups of customers, or customer segments. A value proposition can be aimed specifically at serving one or more of these segments. For some value propositions, choosing the customer comes first. That choice then leads directly to the other two legs of the triangle: needs and relative price.

2 Which needs are you going to meet?

In many cases, choosing the need the company will serve is the primary decision that leads to the other two legs of the triangle. Here, strategy is built on a unique ability to meet a particular need or a subset of needs. Often that ability arises from the specific features of a product or service.

Typically, value propositions based on needs appeal to a mix of customers who might defy traditional segmentation. Instead of belonging to a clear demographic category, the company's customers will be defined by the common need or set of needs they share at a given time.

3

What relative price will provide acceptable value for customers and acceptable profitability for the company?

For some value propositions, relative price is a primary leg of the triangle. Some value propositions target customers who are overserved (and hence overpriced) by other offerings in the industry. A company can win these customers by eliminating unnecessary costs and meeting "just enough" of their needs. Where customers are overserved, the lower relative price is often the dominant leg of the triangle.

Conversely, some value propositions target customers who are underserved (and hence underpriced) by other offerings in the industry. These customers want an enhanced product or service and are willing to pay a premium for it. The unmet need is typically the dominant leg of the triangle, while the higher relative price supports the extra costs the company has to incur to meet it.

OPERATIONAL EFFECTIVENESS VS. STRATEGY

Your company must have different answers from your competitors. Otherwise, you are competing on operational excellence. Does the customer understand the difference? Do employees understand the difference? You must be able to define and explain the uniqueness of your value proposition.

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