



LM THAPAR School of  
Management  
new India starts here

# VALUE PROPOSITION AS A CATALYST FOR A CUSTOMER FOCUSED INNOVATION

# INTRODUCTION

- Definition of value relies on the price-quality ratio of a product or the difference between perceived benefits and perceived costs.
- A value proposition describes how a company's offer **differs** from those of its competitors and explains **why** customers buy from the company.
- A company can **differentiate** its products in various ways like product features, design, timing, location, service and support, product mix, linkage between functions, linkage with other companies, reputation and a combination of these.
- Customers **do not buy** a product's **characteristics**; rather, they buy the **benefits** a product provides.

- During the decision-making process, customers **compare the characteristics** of a product with those of competing products.
- During a value proposition assessment, customers also evaluate the **perceived costs** and **perceived benefits**.
  - The perceived benefits and perceived costs form the value customers perceive; hence, the **higher** the perceived benefits and lower the perceived costs, the **higher** the value perceived by the customer.

Customers assess value as: **Value = Benefits - Costs.**

# PERSPECTIVES ON VALUE PROPOSITION

- Companies usually think of value proposition in terms of what they offer their customers rather than what their customers truly value (Bower and Christensen, 1995; Christensen and Overdorf, 2000).
- Value is created when product attributes, e.g. design, service or support, match specific customer needs (Kambil et al., 1996).
- Value proposition defines the way organizations work by focusing their activities on best serving their customers while doing so profitably (Barnes et al., 2009).
- Research by Anderson et al. (2006) reveals that “it is exceptionally difficult to find examples of value proposition that resonate with customers”.

# EMPHASIS

- The reality is that **customers do have options** and companies have to **differentiate** their offerings from the next best alternative.
- Value proposition involves a careful look at both **the competition** and what their **target clients truly value**.
- Value proposition should ultimately aim to provide **focused and distinct benefits** that help **solve target customers' problems** by being
  - distinctive (superior to those of its competitors)
  - measurable (based on tangible points of difference)
  - sustainable (valid for a certain time period)
- Value proposition comprises **capability and impact** (both benefiting customers) as well as **costs** (viewed as a trade-off).

# Example: amazon.com

- Amazon.com has managed to transform itself from **an online bookstore** to one of the **world's key online shopping destinations**. It has entered the market of application solution providers, offers business solutions (warehousing, distribution) and is among the top players in the cloud computing industry.
- Amazon.com has managed to develop from **a start-up** to **one of the largest companies in the world** in slightly more than a decade. This enables an analysis of innovations in the company's different life cycle phases.
- Amazon.com initially had **extreme and contradictory predictions** regarding its future. Before 2000, Amazon.com was typically featured as a **role model** for other online companies and its **CEO Jeffrey Bezos** was even selected as **Time's Person of the Year 1999**. After the dotcom bust in 2000, even the most prominent scholars attributed it **with negative outlook** and **predicted a bleak future for the company**.

# FINDINGS

## • AMAZON.COM'S CUSTOMERS

TYPE OF CUSTOMER	DESCRIPTION
End customers	Individuals, households and business that purchase goods from the web site <a href="http://www.amazon.com">www.amazon.com</a>
Shopping infrastructure customers	Businesses or individuals who use Amazon.com's platform in order to sell products
Developers	Individuals and corporations who use Amazon.com's infrastructure, web services that comprise a cloud computing platform

# INNOVATIVE VALUE PROPOSITION EXPLAINED: PERFA

- The following five elements that altogether represent a complete overview of all customer value propositions generated by innovations at Amazon.com are **PERFORMANCE (P); EASE OF USE (E); RELIABILITY (R); FLEXIBILITY (F); and AFFECTIVITY (A)**.

PERFA FRAMEWORK	DEFINITION	PRACTICAL EXAMPLE
Performance	The way organization work with the aim of serving best their customers while doing so profitably (Barnes et al., 2009).	Product diversity through third party Sellers, Alignment of customers expectations through product reviews, Compatible barcode system for libraries, Cloud computing services
Ease of use	Degree to which individuals believe using a certain system or product will be effort free.	“One click” purchase, Amazon Approval slip, User-friendly cloud computing services

<b>PERFA FRAMEWORK</b>	<b>DEFINITION</b>	<b>PRACTICAL EXAMPLE</b>
Reliability	The ability of product to deliver according to its specifications (Van Raaij and Pruyn, 1998).	Shipping platform, Cloud computing services
Flexibility	Firm's ability to reallocate and reconfigure its organizational resources, processes and strategies as a response to environmental changes (Sanchez and Perez, 2005)	Sales of audio files in MP3 and CD, Amazon's web infrastructure, Mechanical Turk
Affectivity	Feelings or emotions associated with working with a company or using its products and services	Kindle, Author Central Service, Leverage of the Amazon. com's brand

# CONCLUSIONS

- Although scholars argue the value proposition concept is **too vague** to be useful for innovation, this research indicates it can be of **great use** for innovation if it is systematically decomposed.
- It is customers who decide **whether or not to purchase** a certain product; therefore, innovations must be based on what customers **truly value**.
- Since managers are ultimately the decision-makers, **PERFA framework** offers them **guidance** on what aspects to **improve or innovate** on their innovative offerings in order to **generate value for their customers**.
- A value-focused approach using PERFA framework requires **managers** to rethink their perspective on innovation by putting themselves in the customer's shoes.

- Both managers and practitioners can better understand what is the **impact** of their novelty and how it will affect their **value proposition**.
- The PERFA framework can also be used to **evaluate the impact** of competitor's novelties in the market. By **identifying** which of the five elements of PERFA the novelty has the greatest impact, managers may more accurately design a **strategic response** to counter the competing innovation.
- It enables managers to understand **which factors** reflect competition in the industry and **identify** the trends of current innovation.

# Resonating focus

Focus  
ON  
WHAT  
matters

- Improve Your Value Proposition, Be *Quantitative*
- Qualitative statements are not persuasive!

<b>VALUE PROPOSITION</b>	<b>ALL BENEFITS</b>	<b>FAVOURABLE POINTS OF DIFFERENCE</b>	<b>RESONATING FOCUS</b>
Consists of:	All benefits customers receive from a market offering	All favourable points of difference a market offering has relative to the next best alternative	The one or two points of difference whose improvement will deliver the greatest value to the customer
Answers the customer question:	"Why should our firm purchase your offering?"	"Why should our firm purchase your offering instead of your competitor's?"	"What is <i>most</i> worthwhile for our firm to keep in mind about your offering?"
Requires:	Knowledge of own market offering	Knowledge of own market offering and next best alternative	Knowledge of how own marketing offering delivers value to customers, compared with next best alternative
Has the potential pitfall:	Benefit assertion	Value presumption	Requires customer value research

Source: Customer value propositions in business markets (HBR 2006)

# THANK YOU