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VP

Value Propositions

What is a Value Proposition?

Value Proposition



the sum of the benefits that the organisation promises to deliver to its customers (**the Job to be done**) through its offering, whether products, services or both, for which customers are willing to pay

5 Key Questions you need to answer for EACH product / service in your portfolio

Question 1

What is the product's scope and uses? What are its key features?

- ***This will*** define the boundaries of the company's market and clarifying in which markets the company is currently competing.

Question 2

Who is this product aimed at? Where are they?

- *This will* define the different market segments served by the company
- *In which market* are customer to be found?

Question 3

What need does our product addresses? What problem is it trying to solve? Is it a significant problem for the customer? To what extent does the product addresses the problem?

- *This will clarify* the problem that the product or services is trying to solve, or the need it is designed to meet. (e.g. Job of a Milkshake, Apple & its crossovers)

Question 4

How is the product delivered to the customer?

How do customers find out about the product ?

Which distribution channels do you utilise?

- *This will help define* how the value proposition will be delivered (eg. Four Seasons Hotel)

Question 5

What is the product's price position?

- *This will help* define the price to a value proposition which in turn easily triggers intuitive decisions on the part of customers

You have a value proposition only if....

$$C < P < V$$

Total cost of the
product/service
(production,
distribution, etc...)

Customer net
price (after
discount)

Customer perceived
value

A business model describes the rationale of how an organization creates, delivers, and captures value

Value Propositions: Definition

The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment

Key questions

- What value do we deliver to the customer?
- Which one of our customer's problems are we helping to solve?
- Which customer needs are we satisfying?
- What bundle of products and services are we offering to each Customer Segment?

A Value Proposition creates value for a Customer Segment through a distinct mix of elements catering to that segment's needs.

Elements catering to segment's needs

Values may be



quantitative

e.g. price, speed of service

qualitative

e.g. design, customer experience

Elements from the following non-exhaustive list can contribute to customer value creation.

Elements description (1/5)

Element	Description
Newness	Cell phones, for instance, created a whole new industry around mobile telecommunication. On the other hand, products such as ethical investment funds have little to do with new technology.
Performance	Improving product or service performance has traditionally been a common way to create value. The PC, faster PCs, more disk storage space, and better graphics have failed to produce corresponding growth in customer demand.
Customization	Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance. This approach allows for customized products and services, while still taking advantage of economies of scale.

Elements description (2/5)

Element

Description

“Getting the job done”

Value can be created simply by helping a customer get certain jobs done. Rolls-Royce understands this very well: its airline customers rely entirely on Rolls-Royce to manufacture and service their jet engines. This arrangement allows customers to focus on running their airlines. In return, the airlines pay Rolls-Royce a fee for every hour an engine runs.

Design

Design is an important but difficult element to measure. A product may stand out because of superior design. In the fashion and consumer electronics industries, design can be a particularly important part of the Value Proposition.

Brand/Status

Customers may find value in the simple act of using and displaying a specific brand. Wearing a Rolex watch signifies wealth, for example. On the other end of the spectrum, skateboarders may wear the latest “underground” brands to show that they are “in.”

Elements description (3/5)

Element

Description

Price

Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. But low-price Value Propositions have important implications for the rest of a business model. No frills airlines, such as Southwest, easyJet, and Ryanair have designed entire business models specifically to enable low cost air travel.

Another example of a price-based Value Proposition can be seen in **the Nano, a new car designed and manufactured by the Indian conglomerate Tata.**

Cost reduction

Helping customers reduce costs is an important way to create value. **Salesforce.com**, for example, sells a hosted Customer Relationship management (CRM) application. This relieves buyers from the expense and trouble of having to buy, install, and manage CRM software themselves.

Elements description (4/5)

Element	Description
Risk reduction	Customers value reducing the risks they incur when purchasing products or services. For a used car buyer, a one-year service guarantee reduces the risk of post-purchase breakdowns and repairs. A service-level guarantee partially reduces the risk undertaken by a purchaser of outsourced IT services.
Accessibility	Making products and services available to customers who previously lacked access to them is another way to create value. This can result from business model innovation, new technologies, or a combination of both. NetJets, for instance, popularized the concept of fractional private jet ownership. Using an innovative business model, NetJets offers individuals and corporations access to private jets, a service previously unaffordable to most customers. Mutual funds provide another example of value creation through increased accessibility. This innovative financial product made it possible even for those with modest wealth to build diversified investment portfolios.

Elements description (5/5)

Element

Convenience/Usability

Description

Making things more convenient or easier to use can create substantial value. **With iPod and iTunes, Apple offered customers unprecedented convenience searching, buying, downloading, and listening to digital music. It now dominates the market.**
