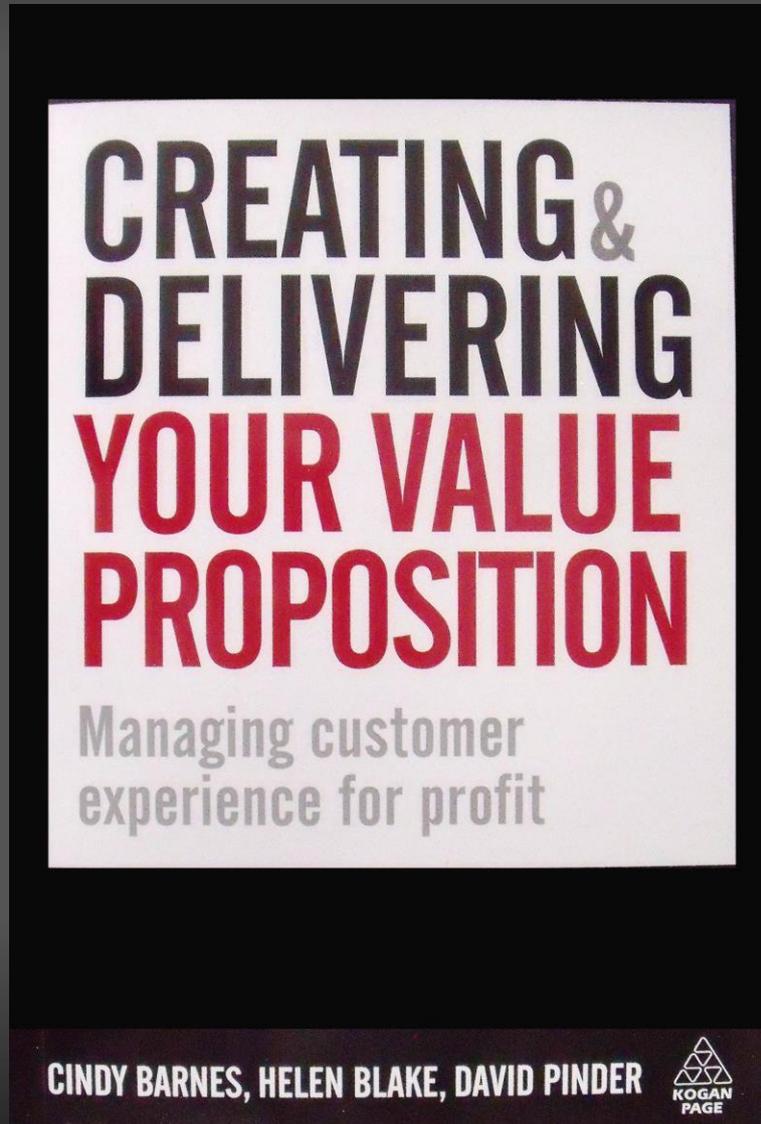


Winning Value Propositions



THIS PAPER IS BASED ON EXTRACTS FROM THE BEST-SELLING BOOK

*“CREATING & DELIVERING YOUR VALUE PROPOSITION:
MANAGING CUSTOMER EXPERIENCE FOR PROFIT”*

BY CINDY BARNES, HELEN BLAKE, DAVID PINDER.

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WINNING VALUE PROPOSITIONS

"Strategy is based on a differentiated customer value proposition. Satisfying customers is the source of sustainable value creation. Strategy requires a clear articulation of targeted customer segments and the value proposition required to please them. Clarity of this value proposition is the single most important dimension of strategy"

Robert S. Kaplan and David P. Norton, 'Strategy Maps'

The term value proposition is used ubiquitously in business today and its original meaning has been dissipated into vague sales and marketing notions that are a million miles away from its intended meaning and use. Mostly, however, it is used as a synonym for 'benefits statement' or to describe the offering. But if you think about it, you'll realise how inappropriate this is because value cannot be represented by benefits and offerings alone.

So what is a value proposition?

A value proposition is a clear, compelling and credible expression of the experience that a customer will receive from a supplier's measurably value-creating offering. It is not a description of what your organisation does for a customer or a vague benefits statement.

To avoid falling into the benefits statement trap, true value propositions must take account of costs. Thus the equation: Value = Benefits – Costs ... where cost stands not only for money but also the other exposures and risks that accompany any transaction. So, time, convenience, risk, and so on all have to be weighed in the balance with any benefits.

From this it follows that value is specific to a particular instance; because time, convenience, perceived risks and so on are all factors that vary from organisation to organisation and from individual to individual. Value, like beauty, is in the eye (or mind) of the beholder.

Value propositions really have weight where they are related to specific market segments, specific offerings used over specific timeframes, specific sales opportunities and to targeted constituencies within those specific sales opportunities. This means it is necessary to define the top level value proposition for an organisation and for a specific segment and for a particular offering over time, etc. This is not as onerous as it first sounds. Starting from the top level and working down through the levels is much easier than starting at the sales level and then attempting to fit the value proposition back up through the organisation.

The top level value proposition of an organisation articulates the essence of the business, defining exactly what the organisation fully intends to make happen in the customer’s life.

Used properly, value propositions are powerful tools for a range of activities, from the strategic to the tactical. Value propositions answer these questions:

- Are we in the right business, focused on the right things for the right clients?
- What is the essence of what we do, with what benefits and at what cost, for whom?
- Are we pursuing the right sales opportunities? (This is a crucial question because the cost of pursuing opportunities is at an all-time high and still rising.)
- And, from the procurement perspective, are those companies that supply us aligned with our organisation and values?

COMPLETE VALUE PROPOSITIONS	
ARE NOT:	ARE:
Internally driven	Specific, measurable and results driven
Responses to customer requests	Promise of value to be delivered
Marketing spin	Experiences that the customer will value
Sales silver bullets	Delivery of our promise and to whom

Value proposition thinking is at the heart of any value-focused organisation. It sharpens the way organisations work by focusing activity so as to serve customers profitably. Note the use of the word ‘profitably’! The value proposition approach recognises that you must be profitable to stay in business. A value proposition approach does NOT mean that your organisation responds to every customer or prospect demand – a sure path to bankruptcy.

In fact, selling without value propositions must lead, sooner or later, to value dissipation and commoditisation on the basis of that lowest common denominator, price.

Value = Benefits - Cost

Value is a *relative* measure. There's an old English expression, one man's meat is another man's poison. That's the sense of it. The chance of a ticket to the big game (or the safari, or the concert, or whatever) might be a huge motivator for one person, but a complete turn-off for another. Value, like beauty, is in the eye of the beholder.

It follows that expressions of Value CAN NOT be communicated by uni-directional statements. A Value Proposition MUST contain both sides of the give-and-take equation: "This is what offering X will do for you, and here is the cost to you."

That's why **VALUE = BENEFITS minus COST**, where 'Benefits' and 'Cost' are broadly evaluated.

- **BENEFITS** are the *outcomes and experiences of Value* to the client (NOT the features of the offering)
- **COST** includes financial exposure AND other factors (time or risk, for example) that the client must 'pay' to get the benefits

There is an interesting point to note about the psychological and emotional impact of Benefits and Costs. Extensive research by psychologists and neuroscientists all point to the vastly overriding impact that 'Cost' has against the impact of 'Benefits' on the human brain. Our ancient brains are hard-wired to respond to negativity (the flight, fight, freeze response) and thus have far greater emotional impact on us than the positive. It therefore follows that any compelling Value Proposition must have benefits that significantly outweigh the costs.

Take a simple example: automated cash dispensers (ATMs) that enable us to check our bank accounts and withdraw cash. A few decades ago, the only way to draw cash from your account was to write a check for the amount you required, go to a branch of your bank, queue up, and get the bank teller to swap the check for cash. The problem was that bank opening hours were not customer-friendly, so people had to break away from their work, or whatever else they were doing, to get to the bank. And because a lot of people were only able to get to the bank in their lunch breaks, the queues were long and tiresome ... and you ended up hungry.

Then along came the ATM, and it changed the world. So what is the top level value proposition for an ATM?

The **benefits** are clear: lots more places to access your cash (normally resulting in fewer or smaller queues), without fuss, whatever time of the day or night. That translates into the ability to get on with your life without this particular disruption or inconvenience.

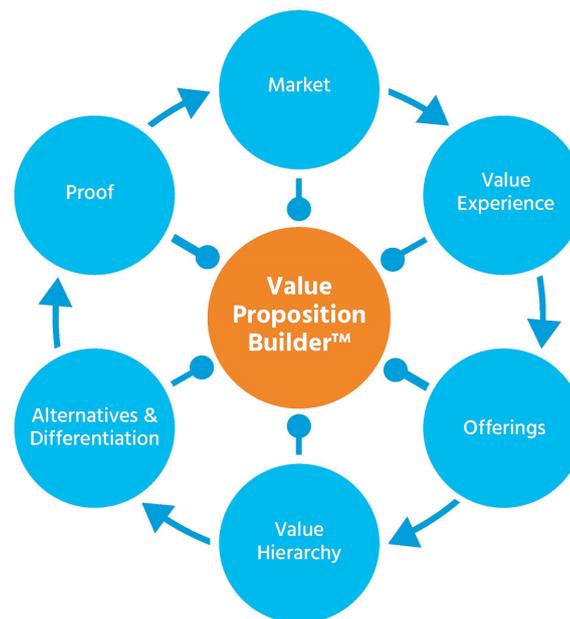
What about the **cost**? Well, you may have to pay a direct fee for accessing the money in this way, but cost also comes in the form of risks: the possible risk of fraud through card cloning and the like, and, perhaps, a slightly higher risk of mugging than exists when you are inside a bank branch. For most of us, the risks associated with ATM use are more than offset by the convenience we gain, so the top level value proposition is benefit-positive.

However, there are those for whom the ATM Value Proposition will not stack up: those of a nervous disposition, for example, fearful that their debit card details might be stolen, or their cash snatched; and, perhaps, those who enjoy the personal contact with a human bank teller.

Okay, this is a simple example, but it serves to make an important point: because Value Propositions express *experiences*, they must relate to specific target groups. It is all very well, and necessary, to develop overarching, top level Value Propositions, but that is only the start. Thereafter, the challenge is to define Value Propositions for different people within a target segment and, even, a target company.

To help you get clarity and differentiation by developing Value Propositions, there follows a Value Proposition Builder™ process. The process is not just theoretical. It has been applied and proven by application to a range of real client situations, including: a specialist offering within a major accounting firm, a global outsourcing organisation, and a leading company supplying technological solutions. It works.

Introducing the Value Proposition Builder™



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The Value Proposition Builder™ is a six-step iterative process.

1. First, you need to decide who to talk to. This means analyzing and identifying the **MARKET** segments, or specific clients, or target individuals within those clients for whom your solution has the potential to deliver Value, profitably.
2. Next, analyze and define the **VALUE EXPERIENCE** that clients get from your organisation from its current activities. You need to define good, bad and neutral experiences, but what will really make a difference are those experiential outcomes that have the power of “Wow!”
3. Then, define the **OFFERINGS** mix capable of leveraging your proven Value Experience with the defined target Market group.

4. When you have done this, you are in a position to assess the **BENEFITS** of the Offerings in the context of the Value Experience you are able to deliver to the Market group. There is a cost component of benefits here which includes Price and Customer Risks, enabling the calculation of Value where $\text{Value} = \text{Benefits} - \text{Cost}$.
5. You are then able to go on to work out how that provides **ALTERNATIVES & DIFFERENTIATION** for your organisation ...
6. ... and back it all up with relevant, substantiated, measurable **PROOF**.

Crucially, each element is viewed through the filter of responses already generated. So, for example, the Value Experience for a particular situation will be related to specific Market segment(s) or client(s) identified in a Market. Then, the Offering is analysed in terms of the identified Value Experience related to the specific Market segment. And so on. By so doing, you are forced to focus and drill down in ever more specific terms.

Value, remember, is in the eye of the beholder, so the focus and drill-down is crucially important. In fact, the more you practice Value Proposition building, the more you will come to realise that **the real power of Value Proposition thinking is in the process**. You will come to realise, too, that building Value Propositions is not easy. It requires hard intellectual analysis and application. Value Propositions achieve their compelling power by being complete, credible, costed analyses of the Value in given situations.

Professor Neil Rackham likens the situation to mission-development sessions. You know the kind of thing: a bunch of senior people lock themselves away for days, weeks, months to hammer out a mission statement. When they emerge, they pin a piece of paper on the notice board. On it is written the sentence that is the result of their thinking. Everyone else gathers round, and there is one overwhelming response ... "It took three months to write *that!*" The point these critics miss is that what was important was **the process**. So it is with Value Propositions and as it is with quality management.

Steps 1, 2 and 3 represent the "Deconstruct" part of the cycle – the process of breaking down and analyzing the background to and structure of an Offering.

Steps 4, 5 and 6 represent the "Reconstruct" part of the cycle – with the benefit of a complete understanding of the elements of Market, Experienced Value and Offering, you are able to build up your Value Proposition with well-founded, relevant and compelling Benefits, Alternatives & Differentiation and Proof.

Because Benefits, Alternatives & Differentiation and Proof *must relate to a specific segment or client situation*, it is not possible to construct them until you have analyzed Market, Value Experience and Offerings.

Note, too, that Message Development (a term so often confused with Value Proposition building) happens at Steps 4, 5 and 6. Any 'messages' created earlier in the process cannot be assured of resonance with the Market segment or client, the Value Experience as perceived by a client, and a specific Offering.

To sum up

A Value proposition statement, which is one of the outputs of the Value Proposition Builder™ process, is a **clear, compelling and credible expression of the experience that a Customer will receive from a supplier's measurably value-creating offering, where Value = Benefits minus Cost**. It is NOT a description of what your organisation does for a customer.

The broad components of a VP are:

CAPABILITY – what you can do for a customer

IMPACT – how that will help the customer to succeed

COST – what the customer must 'pay' for the privilege, including what risk to them

PROOF - evidence that you have delivered value to other organisations

A Value Proposition is a tool that can tell you if you are likely to succeed.

- A Value Proposition must be **COMPELLING** and **BELIEVABLE**.
- Value Proposition development needs to be carried out at the top level, market, sales opportunity and functional levels.
- Value Propositions work because they force focus. The struggle is important: it's the tool that helps you focus your own business and more reliably win business in any sales situation.

That's particularly important in challenging economic times because you need to be sure that whatever resources you commit to sales have the best possible chance of winning.

About Futurecurve

We are the leading experts in uncovering what customers really value and from this generating powerful insights for sales and marketing teams that resonate strongly back to customers; driving better business.

Futurecurve is run by former senior directors from global consulting, technology and telecommunications companies. Our difference comes from a combination of our:

- psychological and behavioural approach and proven mechanisms for identifying and harnessing customer value from your customer's experience
- multi-language, multi-cultural research capability with a network of over 120 business and psychology researchers in 22 countries
- our clients' results and recommendations

Our clients range from large multinationals to small and medium-sized organisations and start-ups, across many sectors including not-for-profits and government.

The benefits of creating a value proposition

The outcomes from creating your value proposition and working this through into your sales propositions can be significant. The following are real examples of companies that created a genuine value proposition for their organisation:

- An engineering company increased sales by more than 110% in one year
- A software company increased its contract renewal rate by more than 35% in the first 12 months
- A credit card company was able to reduce customer churn from 15% to 6% and increase profits by 12% over a two-year period.

You can achieve similar success, overcoming your sales and marketing challenges.

Other Resources

Find other resources on our website - www.futurecurve.com/resources

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