

What is a Value Proposition?

What is a value proposition? Simply put, a value proposition is a collection of products and services a business offers to meet the needs of its customers that helps to differentiate it from its competitors.

For example, several manufactures offer basketball shoes. However, playing basketball requires that the shoe fit tightly and provide good ankle support. To that end, Nike designed a shoe with small air chambers and a pump built into the tongue so that once the shoe was laced up the player could use the pump to fill the air chambers and create a tighter fit. In the end, Nike created a new product with a unique value proposition for a specific customer segment.

You need to look at your specific customer segment and answer the following questions:

- What value do you deliver to the customer?
- Which one of your customers' problems are you helping to solve?
- What bundles of products or services are you offering to each customer segment?
- Which customer needs are you satisfying?

The value proposition may be quantitative in nature such as lower price or higher efficiency or qualitative in nature such as providing an overall better customer experience or outcome.

Some specific examples of a value proposition you might provide as part of your differentiation might include:

- Better performance – as is the case with many new cars
- The ability to customize the solution to their specific needs – as is the case with many software applications
- Improved usability – such as error catching like a spell checker
- A better design – as with the Dyson vacuum

Choosing a Value Proposition Type

When considering your unique value proposition, I find it helpful to consider a list of common value propositions to help guide me and my client's thinking. To that end, here are eleven common value propositions that businesses might offer to their selected customer segment. Review the following value proposition types and determine which one is most appropriate for your offering:

1. **New** – You have a new product or service unlike any other. Generally, your innovation is protected by a patent or something proprietary. When Invisible Fencing came out, they were the only product designed to contain a customer's dog based on the use of a radio transmitter, a perimeter wire, and a receiver collar worn by the dog.
2. **Performance** – PC manufactures generally deploy a new model that is faster and more powerful every 6 months to make the last version obsolete, encouraging the customer to upgrade. Car manufactures also produce new version each year that are a little more powerful and get better gas mileage.
3. **Customization** – 3D scanners, CAD programs, and 3D printers allow consumers to customize their final products. Many products (from software to cell phones) allow the user to customize the final product to capture their unique personality or usage through customization.
4. **Get the Job Done** – When a person buys a condo, it often includes dues that cover all landscaping and exterior maintenance, relieving the consumer from this responsibility. If you offer a product or service that relieves the customer of some task they typically have to perform, you are providing a value proposition of getting the job done.
5. **Design** – The Dyson vacuum's value proposition uses a revolutionary bag-less design as a point of differentiation. While the vacuum cleaner itself was not a new product, it used a different design to capture market share. A design value proposition might also involve better ergonomics or just look cooler.
6. **Brand/Status** – The first generation of Cadillac Escalade was essentially a Chevy Tahoe rebadged to capture the status of Cadillac and thereby a higher margin associated with the prestige of Cadillac ownership. Name brands by virtue of their name often capture higher margins. For instance, Advil costs more than the generic equivalent, Ibuprofen.
7. **Price** – Southwest Airlines and Walmart have a low-price value proposition. All activities are optimized to provide a low-cost product.
8. **Cost Reduction** – Applications that operate in the Cloud, such as Salesforce, relieve the customer of the cost of buying, installing, and maintaining the application in exchange for a small subscription fee as a way to reduce the customer's cost. Equipment rental/leasing companies are another example of businesses that offer a cost reduction value proposition. This type of company is especially valued by small, low duty cycle users to avoid the overhead and cost associated with physical ownership.
9. **Risk Reduction** – Offering an extended service guarantee is an example of risk reduction. When most car companies were offering a two year, twenty four thousand mile warranty, Chrysler offered a seven year, seventy thousand mile power train warranty, which was unheard of at the time. By extending the warranty, Chrysler reduced the customer's risk of owning a Chrysler product.
10. **Accessibility** – Most people can't afford a vacation home. However, with the advent of timeshares that offer the consumer a fractional ownership in a vacation property, ordinary people were provided access to vacation properties previously not available to them.

Fractional ownership provides access to everything from airplanes to sailboats. Even the creation of mutual funds allowed the common person to have a diversified portfolio at a lower price point.

11. **Convenience/Usability** – When the iPod was introduced along with iTunes, it allowed busy users to search for music from a huge online library, download it, and listen to it all in a few minutes without ever leaving the comfort of their living room. By offering this service, Apple provided unprecedented convenience and usability to their customers.

Defining Your Value Proposition's Products and Services

After you understand the job, pain points, and gain points of your customers, it is time to define a value proposition to deliver to them. The products or services that you will provide can come in four different flavors:

1. **Tangible** (e.g., manufactured goods or services delivered in person or face to face)
2. **Virtual** (e.g., downloads or online recommendations)
3. **Intangible** (e.g., copyrights or quality assurances)
4. **Financial** (e.g., investment funds or other financial services)

With these flavors in mind, make a list of all the products and services your company could deliver. Keep in mind the previous lists that you have made. For instance, consider the tasks, problems, and needs of your customer's job. Make sure to factor in how you ranked their significance, critical nature, and frequency.

Also, consider the pain and gain points of your customer segment and how you ranked each point in terms of significance and frequency.

While you should consider all of these factors, it is now time to prioritize and focus on the key ones that you have the ability to deliver on as part of your solution.

Testing Your Value Proposition's Ability to Alleviate Pain

Now that you have a list of potential products or services that you plan to incorporate as part of your value proposition, you need to expose them to the first test.

You can use the following questions to test your value proposition's products and services. These questions will help you determine if your products or services can alleviate the customer's pain points that they experience either before, during, and after performing their job.

Does your value proposition's products and services:

- Produce savings in terms of time, money, or effort?
- Eliminate your customer's frustrations, annoyances, and things that give him a headache?

- Provide new features, provide better performance, or quality that fixes under-performing solutions that currently exist?
- Remove negative social consequences such as loss of face, power, status, or trust?
- Eliminate your customer's financial, social, and technical risks/fears?
- Help your customer with his big issues, diminish his concerns, or eliminate some of his worries so he can sleep better at night?
- Help to eliminate mistakes or errors?
- Provide ways to remove the barriers that are keeping your customer from adopting a new solution such as lowering up-front investment costs, flattening the learning curve, or offering less resistance to change?

Testing Your Value Proposition's Ability to Deliver Gains

Now that you have a potential list of products or services that you plan to incorporate as part of your value proposition, you need to see if it creates the benefits your customer expects, desires, or would be surprised to see.

You can use the following questions to test your value proposition's products and services to see if they will create customer gains before, during, and after your customers perform their job.

Does your value proposition's products and services:

- Create savings in terms of time, money, and effort that will make your customer happy?
- Produce the outcomes your customer expects or go beyond their expectations in terms of quality and quantity?
- Copy or out-perform current solutions that delight your customer in terms of more features, specific features, performance, or quality?
- Make the customer's job easier in terms of a flatter learning curve, better accessibility, more services, or lower cost of ownership?
- Create positive social consequences that your customer desires such as making them look better in the eyes of others, increase power, or raise status?
- Do something that your customer has been looking for such as providing a better design, guarantee, more features, or specific features?
- Fulfill something your customer is dreaming about such as a big achievement?
- Produce positive outcomes that match your customer's success or failure criteria?
- Provide ways that you can help them make adoption easier such as lowering up-front investment costs, flattening the learning curve, or offering less resistance to change?