Value proposition

Introduction

The **Value proposition** is crucial for entrepreneurs as it describes the **benefits** customers can expect from products and services. One or more value propositions may apply to a product or service. The value proposition provides value through various elements, e.g., design, price, functionality, etc.

Purpose

The purpose of the Value Proposition Module is to support entrepreneurs and companies to identify value proposition, which are significant for their potential clients.

Learning Outcomes

After the completion of this module the learner will be able to:

- define the concept of value proposition;
- indicate the elements of value proposition;
- identify types of values proposition;
- place the value proposition in the business model;
- provide examples of some of the most popular value propositions on the market;
- select the most suitable value proposition to satisfy the clients.

Keywords

- SMEs
- business model
- profit
- interest
- relevancy
- differentiation

Value Proposition

Theoretical background

| The Business Model Canvas | Designed for: | Designed by: | Date: | Version: |

Key Partners

Who are our Key Partners?
Who are our suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue Streams?

CATEGORIES
Production
Problem solving
Platform/Network

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships? Revenue Streams?

TYPES OD RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

Value Proposition

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

CHARACTERISTICS
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost reduction
Risk reduction
Accessibility
Convenience/Usability

Customer Relationships

What type pf relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

EXAMPLES
Personal assistance
Dedicated personal assistance
Self-service
Automated services
Communities
Co-creation

Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

CHANNEL PHASES
1. Awareness – How do we raise awareness about our company's products and services?
2. Evaluation – How do we help customers evaluate our organization's Value Proposition?
3. Purchase – How do we allow customers to purchase specific products and services?
4. Delivery – How do we deliver Value Proposition to customers?
5. After sales – How do we provide post-purchase customer support?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided platform

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

IS YOUR BUSINESS MORE
Cost Driven (leanest cost structure, low price proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS
Fixed costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Revenue Streams

For what value are our customers willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

TYPES	FIXED PRICING	DYNAMIC PRICING
Asset sale	List price	Negotiation (bargaining)
Usage fee	Product feature dependent	Yield management
Subscription fees	Customer segment dependent	Real-time market
Licensing	Volume dependent	
Brokerage fees		
Advertising		
Lending/Renting/Leasing		

A value proposition is a is a statement that answers the question: '**why**' should someone do business with you?

A value proposition **IS NOT** an incentive, a catch phrase or a positioning statement.

In order to think about the value proposition, you must first consider the following aspects:

- Identify all the benefits your product offers.
- Describe what makes these benefits valuable.
- Identify your customer's main problems and needs.
- Connect this value to your buyer's problems and needs.
- Differentiate yourself as the preferred provider of this value.

Value Proposition

The role of value proposition

Having an **easily communicated and recognizable value proposition** is increasingly important in today's world where people are bombarded with an overload of information from a variety of media sources and where there are numerous competitors for a company's business.

Successful firms craft their unique value proposition prior to entering the marketplace and they design their business operations in accordance with their value proposition.

Key elements of value proposition

- Newness
- Performance
- Customization
- Design
- Brand/ Status
- Price
- Cost Reduction
- Risk Reduction
- Accessibility
- Convenience/ Usability

Some explanations:

- **Performance** – better performance has been the hallmark of many product offerings over the years, with most industries managing to thrive for decades on improved performance versions of the same products.
- **Customization** – today's consumers believe in self-expression and individualism. They expect the products they use to be an extension of their personality and a medium through which they can communicate their values and priorities to the world.
- **Risk Reduction** – the less risk associated with purchasing a product or service, the more value a customer derives from it. A reduction of the risk associated with a purchase provides peace of mind to a consumer.

Value Proposition

Benefits of value proposition

By offering a good value proposition, companies can:

- Provide their customers with something unique, therefore creating differentiation and increasing competitive advantage.
- Increase the quality of their products or services.
- Gain market share.
- Improve operational efficiency.

Types of Value Proposition

- Functional value – through the "eyes"
- Monetary value – through the "wallet"
- Social value – through acceptation by others
- Psychological value – through the expressions, feelings
- Citizenship value – through a collective benefit
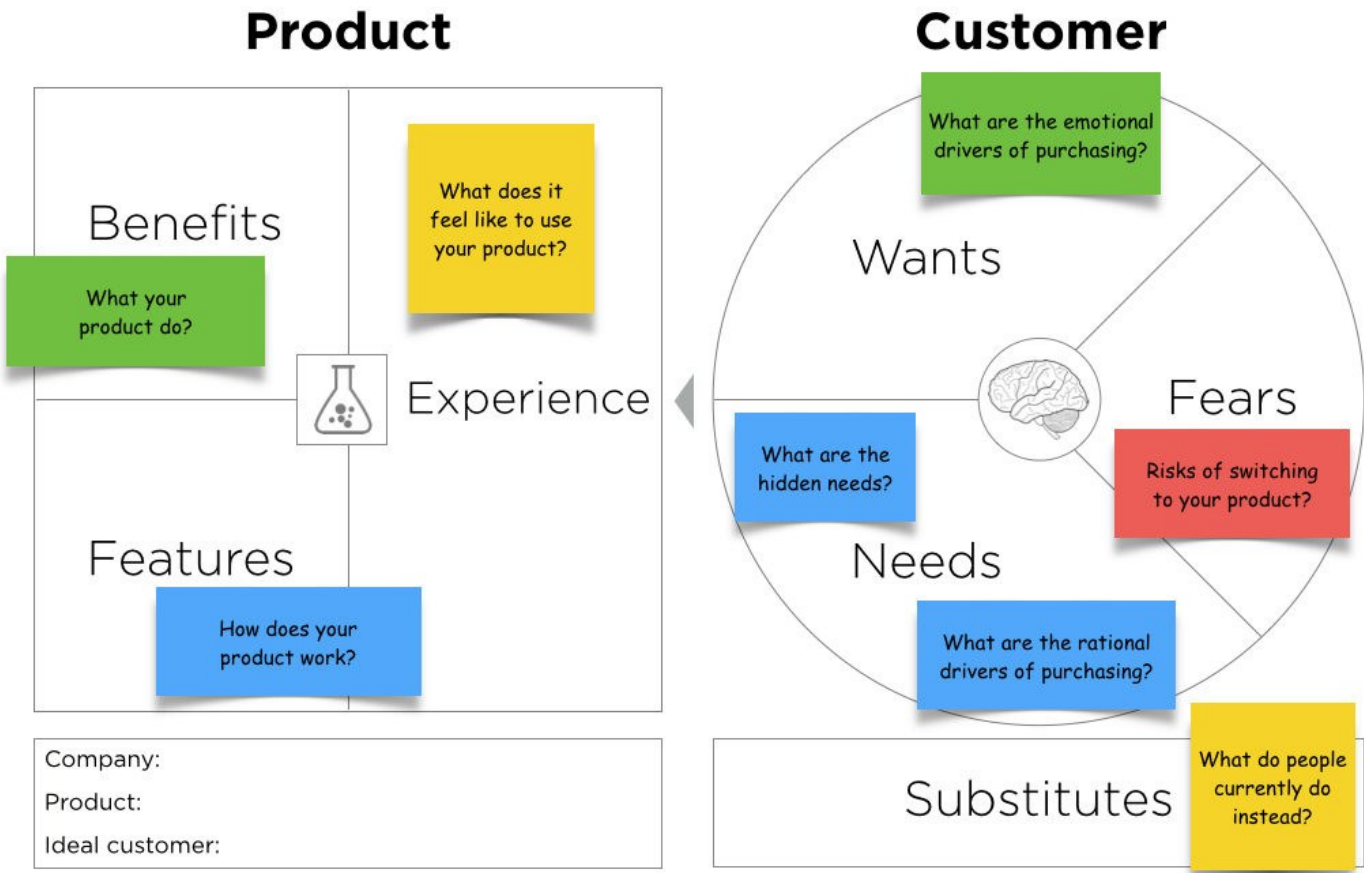
Value Proposition

The value proposition should take into consideration the following aspects related to:

- the product (benefits, experiences, features)
- the customer (wants, needs, fears)

Value Proposition Canvas

Product

Benefits

What your product do?

What does it feel like to use your product?

Experience

Features

How does your product work?

Company:

Product:

Ideal customer:

Customer

What are the emotional drivers of purchasing?

Wants

Fears

What are the hidden needs?

Risks of switching to your product?

Needs

What are the rational drivers of purchasing?

Substitutes

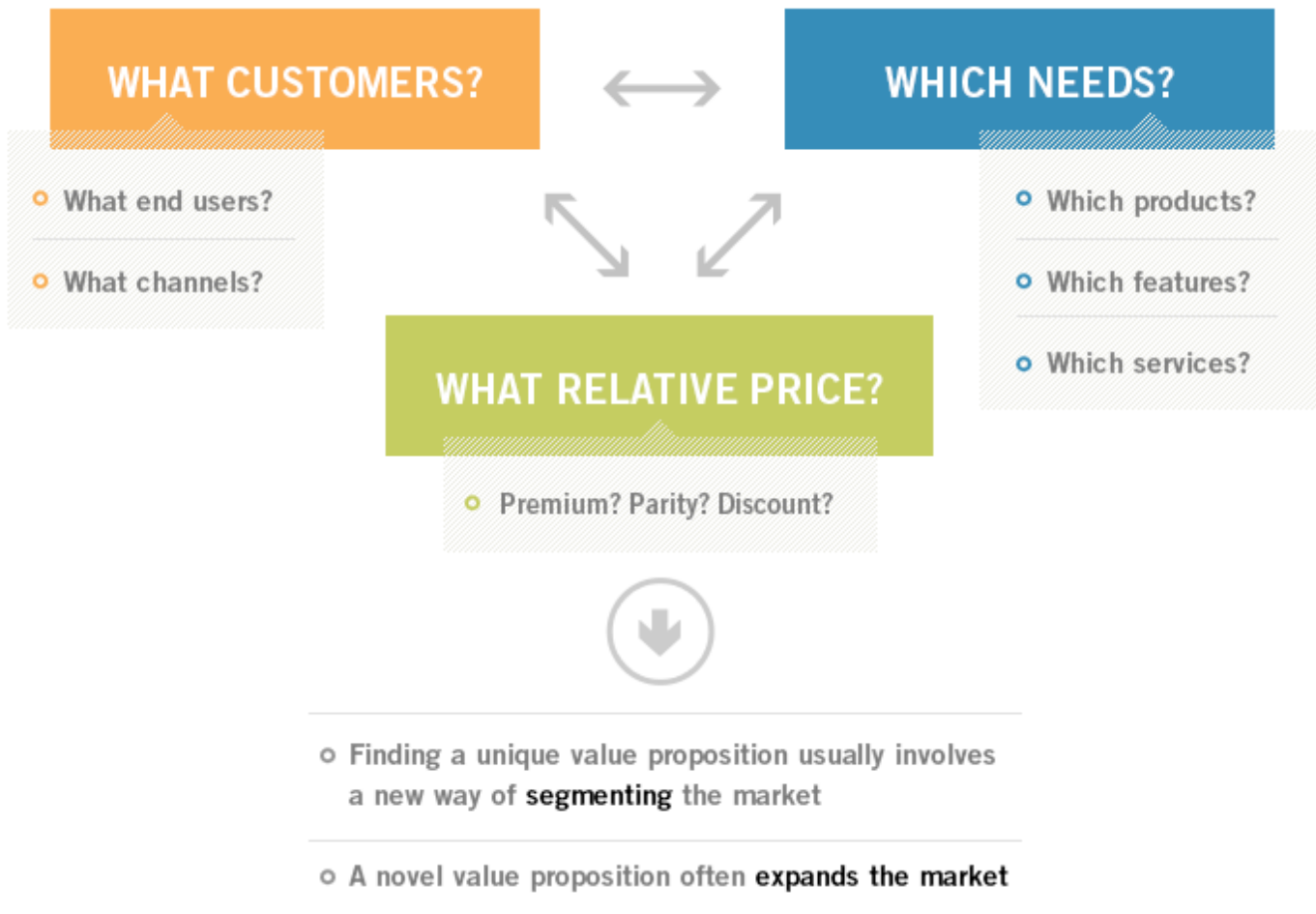What do people currently do instead?

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Value Proposition

In order to propose value proposition of high quality, it is necessary to respond to the following questions (see the Figure):

WHAT CUSTOMERS?

- What end users?
- What channels?

WHICH NEEDS?

- Which products?
- Which features?
- Which services?

WHAT RELATIVE PRICE?

- Premium? Parity? Discount?

- Finding a unique value proposition usually involves a new way of **segmenting** the market
- A novel value proposition often **expands the market**

(ref.: https://www.isc.hbs.edu/strategy/creating-a-successful-strategy/pages/unique-value-proposition.aspx)

Value Proposition

Examples and Good practice

Nike's value proposition

- Accessibility
- Innovation
- Brand/status

Value Proposition

Netflix's value proposition

- Convenience,
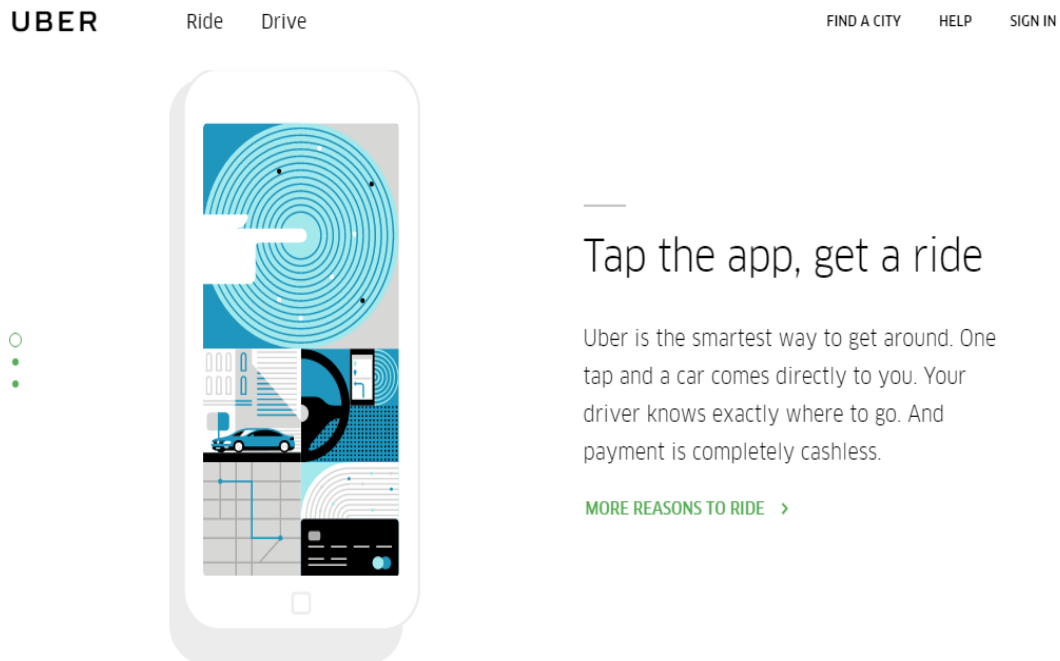- Range of selection
- Competitive pricing

Value Proposition

Uber – The Smartest Way to Get Around

- "One tap and a car comes directly to you"
- "Your driver knows exactly where to go"
- "Payment is completely cashless"

It directly contrasts the typical experience of getting a taxi – no phone calls to disinterested dispatchers, no painful conversations trying to explain to a stressed-out cabbie about where you need to be, and no fumbling for change or worrying you've got enough bills in your wallet. Just a fast, efficient way to get where you're going. This is reinforced by the aspirational messaging towards the top of the Uber homepage, which states that "Your day belongs to you."

Value Proposition

Amazon's value proposition

- "To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavours to offer its customers the lowest possible prices."

KFC's value proposition

- "To provide a unique flavour or 'secret recipe' fried chicken…show more content…"

Value Proposition

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