

Course title: Creating Innovative Business Models

Lecture 10. Effectively design value propositions

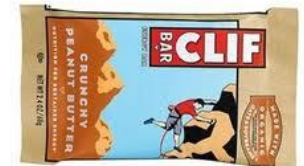
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VALUE PROPOSITIONS ARE PART OF EVERYDAY LIFE

Ken or Blaine?



Which do I buy?



Drive or mass transit?



A VALUE PROPOSITION IS...

- Part of a firm's business model
- An element of strategy
- A reflection of the value a firm offers its customers
- And finally... A carefully crafted marketing message
 - Communicates a clear point of differentiation
 - Is highly persuasive
 - Supports lead generation and sales
 - And more...

DEFINITION - VALUE PROPOSITION

- A value proposition describes why a customer should buy a product or service
- It targets a well defined customer segment
- It convinces prospective customers that a particular product or service will add more value or better solve a problem than competitive products or services

Exercise: iPad 3



iPAD 3 VALUE PROPOSITION

- From VentureBeat.com:

The iPad's Retina Display is like the jump between DVD and Blu-ray. Indeed, the new iPad's value proposition is entirely centered on a huge resolution bump.

The new Retina Display finally gives the iPad a feature that you can't find anywhere else. Few consumer computer monitors reach near the new iPad's 2048 by 1536 resolution. The screen is also far beyond the 1920 by 1080 resolution of HDTVs.

Because of its high resolution, the Retina Display makes practically everything look better, even merely browsing the web.

SEGWAY: WHAT HAPPENED?

Cover more ground. Be more productive. Move more intelligently.

- Revolutionary/disruptive transportation device with serious “cool factor” never reaches its expected potential
- It’s value proposition didn’t resonate:
 - Failure to properly segment the market: they targeted basically everyone
 - The problem they were solving was vague: “need” was missing
 - The product couldn’t change behavior: We are hooked on cars
 - At \$5,000 priced too high for most



Great Brands, Great Value Props

- Harley Davidson
 - "Harley-Davidson stands for independence, freedom, individuality, expressing one's self, adventure on the open road, and experiencing life to its fullest. This is what people are buying when they buy a Harley."
- FedEx
 - "When your package absolutely, positively has to get there overnight"
- Walmart
 - Leader in low prices and huge selection
- Nordstrom
 - "While Nordstrom was growing nationally, it focused on catering to customers' needs, individually. Instead of categorizing departments by merchandise, Nordstrom created fashion departments that fit individuals' lifestyles."
- McDonald's
 - As introduced by their founder, Ray Kroc, many years ago: "friendliness, cleanliness, consistency, and convenience."



NORDSTROM



MICHAEL PORTER'S MODEL

A value proposition answers three questions:

**Which
customers?**

WHAT END USERS
AND CHANNELS?

**Which
needs?**

WHICH PRODUCTS,
SERVICES, FEATURES?

**What
relative
price?**

PREMIUM OR
DISCOUNT?

Which Customers?

- Consumer markets can be segmented by:
 - Demographics
 - Geography
 - Psychographics
 - Behavioral
 - Sociocultural
 - Hybrids of the above
- B2B markets by:
 - Type of business (manufacturer, retailer, wholesaler, service provider)
 - SIC / NAICS Code
 - Size of Business
 - Financial Strength
 - Number of Employees
 - Location
 - Structure
 - Sales Level



Customer Segmentation Examples*

- Walmart – Geography (underserved rural areas with populations between 5,000 and 25,000)
- Progressive – Demographics (“nonstandard” or “high risk” drivers)
- Edward Jones – Behavioral (consumers who delegated financial choices or who needed a high degree of “hand holding” with financial advisors)



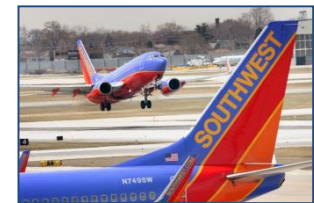
Customer Needs Examples*

- Enterprise – Renting cars meets different needs at different times
 - Fairly-priced convenient, home city rentals primarily for non business purposes
- ZipCar – People who choose not to own a car but who occasionally need to use one
 - Also based on home city, but for different needs



Relative Price Examples*

- **NetJets – Serves an “underserved” clientele who want enhanced service vs flying first class**
 - Steep, steep premium
- **Southwest – Serves an “overserved” customer base who prefers less frills and lower fares with a side order of convenience**



Great Brands, Great Value Props

Customer, Needs or Price??

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NORDSTROM



BUSINESS MODEL GENERATION

“A value proposition creates value for a Customer Segment through a distinct mix of elements catering to that segment’s needs.

Values may be quantitative (price, speed of service) or qualitative (design, customer experience).”



CREATING VALUE FOR CUSTOMERS

- ACCESSIBILITY

- Make products and services available to people who have no prior access to them
- Can be through innovations in business models or technology

- Examples

- ZipCar – Car sharing service
- Progressive Insurance – Car insurance for high risk drivers





- *TRADE IS ABOUT VALUE. We have changed the value proposition for investing and financial services, offering a good deal more for a good deal less.
- Anytime, anywhere access through multiple gateways. Quality transaction executions, and portfolio management. Comprehensive, reliable information resources, delivered through a customized financial “environment.” It isn’t just low commissions that make E*TRADE different — it’s what customers get for those low commissions.
- Our aim is to leverage technology, to offer more and more valuable services without adding unnecessary costs to us or to our customers. Technology lets us do more and do it for less.

CREATING VALUE FOR CUSTOMERS

- PERFORMANCE

- Improving the performance of products or services

- Examples

- PCs: Increased disk storage and speed

- Digital cameras: increased pixels and resolution, more powerful zoom





Volvo world firsts:

- 1944 – Passenger compartment steel safety cage
- 1959 – Three-point front lap/shoulder seatbelts as standard
- 1966 – Crumple zones, rear and front
- 1973 – Collapsible steering column
- 1974 – Energy absorbing bumpers
- 1984 – Anti-lock brakes
- 1987 – Frontal air bags
- 1994 – Side impact airbags



**IT SHOULDN'T TAKE
AN ACT OF CONGRESS
TO MAKE CARS SAFE.**

Volvo was committed to safety long before it became mandatory.

In 1956, for example, we installed padded dashboards: 12 years before the government insisted on them.

In 1959, Volvo became the first mass-produced car in the world with safety belts as standard equipment. Nine years later all cars had safety belts, inspired by Federal regulations.

We don't just settle for the legal minimum, either:

The law says all cars must have two brake circuits. Volvos have two *triangular* circuits, each controlling three wheels. So if one circuit fails, you still have about 80% of your braking power.

Volvos also have many safety features not required by law:

Like front and rear ends which absorb the impact of collisions. Four-wheel disc brakes with a pressure-proportioning valve to reduce the chances of rear-wheel lock-up. Child-proof rear doors. Rear window defrosters.

Now who would you rather buy a car from?

A company that builds a safe car because someone else made them do it?

Or a company that builds a safe car because their conscience made them do it?

VOLVO
SAFETY. A COMMITMENT.

A black and white photograph of a Volvo car parked in front of the United States Capitol building. The car is viewed from the front, and the Capitol's dome is prominent in the background.

MORE PERFORMANCE-BASED VALUE PROPOSITIONS

- Laundry detergent
 - Bleach alternative
 - Brightening agents
 - Allergy free formula
 - Increased cleaning power
 - Enhanced with Fabreeze
- Toothpaste
 - Whitening
 - Breath freshening
 - Cavity prevention
- Tires
 - Run flat tires
 - All weather
 - Extended wear



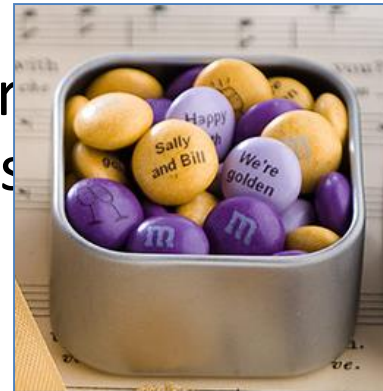
The Michelin PAX System



CREATING VALUE FOR CUSTOMERS

- CUSTOMIZATION

- Tailoring products and services to specific customer segments or customer needs



- Examples

- My M&Ms
- Dell computers
- Nike customized athletic shoes



CREATING VALUE FOR CUSTOMERS

- CONVENIENCE

- Making products and services more convenient and easier to use



- Examples

- iPod and iTunes
- Amazon – global marketplace
- Kuerig single cup coffee makers
- Online grocery shopping & delivery
- Online banking services



amazon.com

CREATING VALUE FOR CUSTOMERS

- REDUCING RISK

- Reducing risk of product or service underperformance or failure

- Examples

- FedEx backs FedEx Express[®] shipments and FedEx Ground[®] shipments within the U.S. and to Canada with a money-back guarantee
- Chevrolet's "Love It or Return It" allows new-car buyers to return vehicles for a full refund (up to 4,000 miles)



CHEVY'S
LOVE IT OR RETURN IT
GUARANTEE*



Go to chevyconfidence.com for details.

CRAFTSMAN

- Introduced in 1927 by Sears with an unlimited lifetime warranty
- Requires no receipt or dated proof of purchase... ever
- Consumers have ranked the Craftsman brand second (surpassed only by Waterford Crystal) in terms of quality
- In 2007, Craftsman was named "America's Most Trusted Brand" and brand with "Highest Expectations"



HYUNDAI



America's Best Warranty*
10-Year/100,000-Mile
Powertrain Limited Warranty

For more than a decade, America's Best Warranty hasn't just changed how our customers feel about their cars, it's changed how we build vehicles. To make sure we deliver automobiles worthy of a 10-year warranty, Hyundai initiated the Drive Defects to Zero plan. This program has a dedicated team of Hyundai engineers that are charged with catching, learning about and fixing any issue, no matter how small, before it gets to the customer.

America's Best Warranty does more than give you peace of mind, it's a commitment from Hyundai to maintain a high degree of quality, dependability and reliability.

CREATING VALUE FOR CUSTOMERS

- DESIGN

- Firms can differentiate their products and service through superior design, via aesthetics, ergonomics, environmental implications and more

- Examples

- Virtually any Apple product
- Node electric outlet
- OXO swivel peeler
- Patagonia Synchronia fleece jacket (made from recycled plastic bottles)





The ABSOLUT UNIQUE which consists of close to four million uniquely designed bottles to grace shelves worldwide. The liquor brand has always been at the forefront in introducing creative collaboration efforts from a range of artists, but in this particular project, ABSOLUT has decided to take the artistic reigns. Using a mix of 38 different colors and 51 pattern types, applied through splash guns and color-generating machines, each bottle produced was ensured that it would look one-of-a-kind.

CREATING VALUE FOR CUSTOMERS

- COST REDUCTION
 - Taking cost out for customers creates value and loyalty
- Examples
 - Salesforce.com
 - Server hosting services
 - Skype
 - Bundled services such as Comcast's triple play: internet, cable and phone



CREATING VALUE FOR CUSTOMERS

- LOW PRICE & FREE

- Similar value at reduced or no price for specific customer segments
- Many require new business models to implement



- Examples

- Southwest Airlines
- Free email & free apps
- Overstock.com
- Smart Car



overstock.com®

CREATING VALUE FOR CUSTOMERS

- INNOVATION & NEWNESS

- Creates new set of “needs” or solves problems customers didn’t perceive or recognize
- Usually related to technology or innovation in business models



- Examples

- Video games
- Cell phones
- Tablet computers
- Satellite radio



IN B2B MARKETS*

- All benefits
 - Lists all benefits whether they matter to customer or not
 - Requires least knowledge of customer or competitors
- Favorable points of difference
 - Recognizes the customer has an alternative
 - Requires an intense understanding of competitive offering
 - Points of difference may deliver little value to the customer
- Resonating focus
 - The “gold standard”
 - Firm delivers value on the criteria which matter most to target customers
 - Can demonstrate and document the superior value

IN B2B MARKETS

- Do a “deep dive” into a prospective customer’s business
 - What do they value?
 - What are their challenges & opportunities?
 - What are their unique requirements and preferences?
 - Can you help their products compete more favorably with *their* competitors’?
- Show how your products/services outperform others on the criteria that matters the most



B2B EXAMPLE #1

SUPPLIER: Paint Manufacturer

CUSTOMER SEGMENT: Painting Contractors

KEY CUSTOMER CHALLENGE: Cost of Labor

KEY INSIGHT DISCOVERED: Cost of paint is just 15% of total costs

VALUE DELIVERED TO CUSTOMER: Paint that dries so quickly two coats can be applied per day, greatly reducing labor costs

RESULT: Customer switched products and paid a 40% premium on price for it



B2B EXAMPLE #2

SUPPLIER: Plastics Mold Manufacturer

CUSTOMER SEGMENT: Medical Device

KEY CUSTOMER CHALLENGE: Sticking Parts

KEY INSIGHT DISCOVERED: Customer not using release agents or coated molds

VALUE DELIVERED TO CUSTOMER: Mold manufacturer developed a custom solution that reduced sticking parts by 99.5%

RESULT: Received 85% of the business while also charging 10% premium on the molds



Summary

Your value proposition must...

- ✓ Be based on what the customer perceives will add value
- ✓ The firm's value chain must be specifically tailored to deliver the value proposition
 - i.e. Activities that a firm performs in order to deliver something of value (product or service)
- ✓ It must be based on truth, not “marketing spin”
- ✓ Must address a specific customer segment
- ✓ In most cases will address relative price

Reference

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