



Article – Crafting a Value Proposition

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A market led company defines itself by the solutions it brings to the market or by what it does for its customers.ⁱ If you happen to be in the business of selling products or services to other businesses, never has it been more crucial to be market led, given the realities of a deteriorating economy. Knowing what value really means to customers is one of the most important issues for managers to face up to.

Customers develop expectations of value and then proceed to make a purchase based on whatever it is they perceive the product or service has to offer in terms of benefits compared to the total cost involved. This might include not only price but also the time, effort and difficulty involved etc. Clearly then superior customer value is present when the total experience of the buyer is favourable when compared with their expectations and perceptions of similar products or services available from competitors.ⁱⁱ

Cheverton (2004) discusses an error often made by many companies which is to define their business by the type of product or service they produce rather than what they do for their customers. They tend to put much of their effort, time and money improving the quality of whatever it is they produce with perhaps R&D the driving force in the business. So consumed are they with what they produce, that by failing to consider the drivers of change in the environment, whether that be changes in consumer lifestyles impacting on purchasing behaviour or technological change or whatever, that they suddenly find themselves losing out to competitors. He provides a good example. Consider if you happened to be a slide rule manufacturer, your business may not be under threat as long as the industry technology remained non-electronic, but fatal once that change took place. Alternatively, a market-led company might have defined itself as being in the business of portable calculation (solutions it brings to the market) and directed more of its spend and energy towards developing other solutions such as producing a better means of portable calculation, attending to the hatred of its product by students. Working in this way may have led to a long term position in the market. Nevertheless, a slide rule manufacturer is not likely to morph into an electronic manufacturer overnight but there is the option of a strategic alliance with such an organisation.ⁱⁱⁱ Being market led means that all business's activities will be dictated by the market, it will always attempt to meet the needs of the market with little if any reference to internal strengths of the company. A business that is market led believes its most important asset is its customers^{iv}.

A market led company will organise its activities around its customers, talking to them and delving into their requirements before setting out to design and create a specific product or service. The product led company on the other hand may first produce what it is they consider is an innovative and exciting new product but then have to find customers for it. A market led company makes sure it has interested customers in the first place. Consider, if you were a software company selling business solutions to government and industry, the value of talking to all the parties involved first if you were

attempting to produce a piece of software for say the financial regulator that provides a live up-to-the-minute tracking monitor on the movement of money in the banking system.

Even in the best of times it can be difficult to “bring in” sales, but today the difficulties are much greater as the amount of pressure bearing down on buyers to rein in costs has made them seem little interested in anything but price. Under such pressure customers may only look at price and not listen to the sales pitch or indeed believe in the superior value of what’s on offer. An offering may actually provide superior value, but if the supplier doesn’t claim and demonstrate both the benefits and the savings involved, the buyer may overlook the value proposition^v.

Professor Malcolm McDonald is a leading authority on marketing. Pricing is an area he feels strongly about. The reason people buy on price, no matter what you are talking about, ‘is because the suppliers haven’t bothered to understand their needs’. And if nobody cares about their needs, what do the customers do? They say, ‘To hell with it I’m buying on price’. This is different from saying that prices generally are coming down, he says, because of economies of scale and scope, they will continue to do so for many years and it is essential that companies remain competitive in terms of productivity and being cost effective. “However, the point is that there is a sizable difference being cost effective and using price as your only weapon”^{vi}.

McDonald goes on to say that in a downturn the knee-jerk reaction is to drop prices. Rather, he says, in a downturn the first thing to work out is who your profitable customers are, and how you are going to keep them, the key being to understand them better and be better informed than the competition. He asserts that historic evidence suggests, we don’t understand our customers properly so we drop our prices but “you can’t win in a price war can you” he says and refers to price dropping as “the last bastion of the ignorant”.

Philip Kotler widely regarded as the father of modern marketing has some advice to offer on how to boost customer value propositions in the prevailing economic climate. The purpose of marketing communications in the past has been to inform, then persuade, and remind. For example some advertising is to inform about new features, some is to build some preference for what is on offer and some is simply to remind people to drink for example, Coca Cola, because we already know what it is, we just need to be reminded. That, he feels is “a little limp” these days and suggests it is more important now to involve, develop and engage customers in dialogue and work at getting more out of a relationship that goes both ways. The old marketing was a monologue, and that doesn’t work today^{vii}.

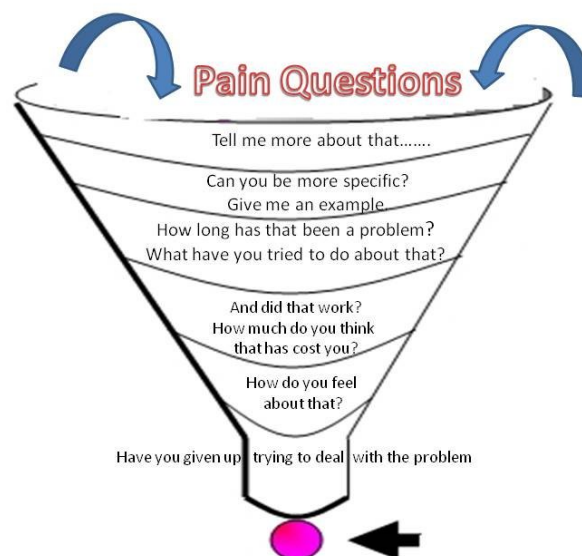
“It’s a whole different attitude now” says Kotler, “so I think companies have to drop the mindset that we’re going to spend all our money telling you about our products, rather than spending our money on learning about our customers”. He suggests companies should listen to their lead users. “There are customers we call lead users of our products, especially in B2B (business to business), who not only buy your products, but they change them altogether. A lead user is one who says, you still have the best products, but they could be better for us.” He describes how some people tinker with MRI scanners made by big important companies, so that they can do a better job of looking into the body. “These lead users really lead us to the next iteration of our products or services, and show us things we weren’t capable of seeing ourselves”.

Interestingly one company that has invested time in understanding customer needs is the healthcare division of Philips the electronics company. This they proudly demonstrate in a current press advertisement entitled “because needing an MRI is scary enough”^{viii}. For anyone who has had the claustrophobic experience of the traditional tunnel type MRI scanner, they will greatly appreciate how Philips, through innovation, have enhanced the quality of care for patients with their new Open MRI scanning “that produces a quality image without having to put anyone into a narrow tunnel”. This is the kind of customer engagement that Kotler describes as vital. “It all fits with the concept of co-creation that is going on in truly creative companies”.

The "Pain Funnel" is a term created by the late David Sandler. The Sandler Selling System is an approach or methodology, used by many prominent organisations to question customers, existing or prospective, and is a big departure from the traditional method of selling. In essence it advocates doing away with the familiar feature and benefits approach to selling and leads the customer through a sequence of questions with a view to uncovering their present pain. The more he uncovered, the deeper he probed. He believed that buying is an emotional process and what he calls pain. The notion is that people will run away from pain faster than they will run towards pleasure. Whatever it is you happen to be selling, the notion presented is that it is always in some way bigger, better, faster and with better customer service than the competition; and your customer or potential customer has heard it all before.

However, if you can minimise or remove the pain from their world, you could have a customer for life and this is the goal of the system. The idea is to think of the method used to uncover the elements of pain as a funnel that is wide at the top and gets narrower and narrower. The answers that fall out of Sandler's pain funnel as a result of the questioning will help you form a complete picture of a customer's pain, providing valuable information on the surface problem, the primary reasons for the problem, and the implications for the individual. The notion is to follow the pain funnel, and at the bottom you will uncover the information you need to help you define your customer value proposition.

The Sandler Pain Funnel



Not surprisingly the term “customer value proposition” has become a widely used term in business markets in recent years. To understand what constitutes a customer value proposition and what makes one persuasive to customers, Anderson et al carried out management practices research in Europe and United States. A striking discovery they made was that it is exceptionally difficult to find examples of value propositions that resonate with customers. They also found that most value propositions made claims of savings and benefits to the customer without backing up such claims with supporting evidence. An offering may in fact provide superior value, but if the supplier does not demonstrate and importantly document and support that claim, a buyer is likely to dismiss it as ‘marketing puffery’. Buyers, increasingly today are held accountable for reducing costs and don’t have the luxury of simply believing or accepting supplier assertions^{ix}.

Anderson et al give an example of a company that made integrated circuits (ICs) who set out to supply 5 million units to an electronic device manufacturer for their next-generation product. In the process of negotiations, the company’s salesperson found out that he was competing against a company whose price was 10 cents lower per unit. The customer enquired of each salesperson why their particular offering was superior. This salesperson placed at the centre of his value proposition, the service that he, personally, would provide. What he didn’t realise was however, that the customer had developed a customer value model which found that the company’s offering, albeit 10 cents higher in price per unit, was actually worth 15.9 cents more. The engineer leading the project had endorsed his product and recommended that his ICs should be purchased, even at the higher price. The personal element of the salesperson’s proposition did turn out to be worth just 0.2 cents but he had neglected the two indispensable elements of his company’s IC offering that were of most value to the customer. He was clearly unaware of their value to the customer and, how superior they made his offering to that of the competition. Concerned about what he had to offer could not justify the price, the salesperson offered a 10 cent price discount concession to win the business, losing out on a half million dollars in margin.

So how might one go about persuading business customers to pay the premium prices your offerings deserve? The following is a best practice systematic approach Anderson et al drew from just a handful of suppliers in business markets that are both meaningful to target customers and focus suppliers efforts on creating superior value.

Based on the research, they classified the value propositions into three types:

- 1) All benefits: The all benefits value proposition involves all the benefits customers receive and it answers the question “Why a customer should buy your products and services?” A possible pitfall is the difficulty of actually asserting your value promise, in that how can you be certain that the range of benefits you are asserting are a benefit to the customer.
- 2) Favourable points of difference: This type of value proposition takes into consideration the competition. The goal here is to answer the question “Why should a customer buy your offering instead of your competitor’s. The proposition includes all favourable points of difference an offering has relative to the next best alternative. Again there is a pitfall: the value presumption where it might be presumed that a favourable point of difference carries an actual value proposition to the customer.
- 3) Resonating focus: This third type of value proposition involves just one or two points of difference which are truly meaningful to the customer. However, there is yet again a possible pitfall: do you really know what is valuable to your customer?

VALUE PROPOSITION	ALL BENEFITS	FAVOURABLE POINTS OF DIFFERENCE	RESONATING FOCUS
Consists of:	All benefits customers receive from the market offering	All favourable points of difference a market offering has relative to the next best alternative	The one or two points of difference (and perhaps a point of parity) whose improvement will deliver the greatest value to the customer for the foreseeable future.
Answers the customer question:	"Why should our firm purchase your offering"	"Why should our firm purchase your offering instead of your competitor's?"	"What is most worthwhile for our firm to keep in mind about your offering?"
Requires:	Knowledge of own market offering	Knowledge of own market offering and next best alternative.	Knowledge of how own market offering delivers superior value to customers, compared with the next best alternative
Has the potential pitfall:	Benefit assertion	Value presumption	Requires customer value research

Anderson et Al 2006

According to Anderson et Al, suppliers adopting best practice build their value proposition around just a few key elements that matter most to their customers and they demonstrate the value of their offering in such a way that displays a 'sophisticated' knowledge and understanding of their customer's priorities.

A suppliers offering will provide a range of benefits for customers but the chances are so will the competition. The key question then is, "How does your value offerings compare in the eyes of your customers' with those of the next best alternative?" Here Anderson et Al claim that it is particularly useful to sort value elements into three types:

- 1) Points of parity: These are aspects or components that by and large perform the same or have similar functionality as those of the next best alternative.
- 2) Points of difference: These are components of a supplier's offering that result in it being either superior or inferior to the next best alternative.
- 3) Points of contention: This relates to components or features of the offering about which the supplier and the customer disagree regarding how the performance or functionality of the offering compares with the next best alternative.

Having a superior value promise is not sufficient on its own however. It has to be compelling in the eyes of the customer and communicated to them in an appropriate way and using appropriate tools.

Anderson et al recommend that customer value propositions should be substantiated, the value to customers demonstrated in advance and importantly, documented. Working with customers to set out how cost savings or incremental profits can be achieved demands a disciplined and effective approach to discover, understand and apply new knowledge and ideas. It is this knowledge in many cases that has become prerequisite to gaining and sustaining competitive advantage. It is this type of knowledge that is at the centre of the knowledge economy. Prospect customers have got to be convinced that the cost savings or added value promised can realistically be achieved from using the supplier's product or service and that it offers more than the next best alternative. They need to be sure that the supplier has the people, processes, tools and experience necessary to enable it to save their company money. To do this the supplier needs a medium for the team to share knowledge, ideas, ask questions, and trace earlier journeys on similar projects, and value assessment tools, demonstrating and documenting the value proposition.

The authors contend that customer value propositions, properly constructed and delivered, make a significant contribution to the business strategy and performance of any firm. They emphasise that best practice supplier organisations recognise and substantiate resonating focus value propositions is not a onetime undertaking and suggest making the customer value propositions fundamental and central to business strategy and that each value proposition should be distinctive, measurable and sustainable.

Knowing what value means to customers is a critical issue for managers to face up to and crafting that customer value proposition is ever more vital today given the turbulent nature of the market place. This involves: a) researching potential customer enterprises; b) identifying their unique requirements; c) explaining how your offerings outmatch your rivals on the criteria that matter most to each customer; and d) documenting the cost savings and profits your products deliver to existing customers and will deliver to new customers. In essence customer value propositions should be a central and indispensable part of every business strategy.

ⁱ Cheverton P, 'Key Marketing Skills', Kogan Page, 2004, page 14.

ⁱⁱ Piercy N, 'Market-led Strategic Change', Elsevier 200

ⁱⁱⁱ Cheverton P, 'Key Marketing Skills', Kogan Page, 2004, page 14-16.

^{iv} Product orientation, market orientation and asset-led marketing, WJEC Business Studies A Level Resources 2008 Specification, Issue 1 Sept 2007, http://www.ngfl-cymru.org.uk/eng/product_led-2.pdf

^v Anderson James C., Narus James A. & van Rossum Wouter, Harvard Business Review, March 2006.

^{vi} O'Dea A, 'The Professionals' in *Marketing Age*, Nov/Dec 2008, Business & Leadership Ltd

^{vii} O'Dea A, 'The Age of Turbulence' in *Marketing Age*, Jan/Feb 2009, Business & Leadership Ltd

^{viii} 'Because needing an MRI is scary enough' in Time Magazine, Vol. 173, No 7, 2009, page 2.

^{ix} Anderson James C., Narus James A. & van Rossum Wouter, Harvard Business Review, March 2006.