

CUSTOMER VALUE PROPOSITION

Key Points

- The centerpiece of a strategy is the customer value proposition. The value proposition, as the name states, should describe the value an organization provides to its customers through its products and services.
- There are three kinds of value propositions – all benefits, favorable points of difference, and resonating focus.
- Further, there are three generic value propositions themselves – operational excellence, customer intimacy, and product/service innovation.

Main Thoughts

The centerpiece of a good strategy is a well-crafted value proposition. A firm's value proposition articulates the value that a firm provides through its products and services to its targeted customers. The concept of the value proposition is not new; managers, marketers and sales professionals have for years been sharpening their messaging regarding what their products are worth to customers. Within the past decade however, researchers have provided clarity on both the kinds of value propositions that exist and the generic types of value propositions that firms use when developing their strategies.

Kinds of Value Propositions

Researchers Anderson, Narus and van Rossum identify three different kinds of value propositions from their work with organizations throughout Europe and the United States. *All Benefits* - All benefits simply lists all of the benefits that an organization provides to its target customers. While comprehensive, it tends to suffer from a lack of credibility that comes when the value proposition is not differentiated from competitors or focused specifically on the unique needs of the customer.

Favorable Points of Differentiation - Favorable points of differentiation emphasizes key differences between a firm's offerings and those of competitors at the customer interface. It takes into account the notion that the buyer has alternatives. Like the all benefits value proposition it lacks specificity relative to the buyer.

Resonating Focus - Resonating focus highlights one or two critical differences between the firm's offerings and those of competitors with the forethought that these differences represent those areas that are most vital in the mind of the customer. While most effective, this value proposition takes considerable time to develop as it is strongly rooted in a deep understanding of customer needs.

Generic Value Propositions

Different from kinds of value propositions are the generic value propositions themselves. Generic value propositions were first identified in 1993 in the Harvard Business Review article, *Customer Intimacy and Other Value Propositions*. In the article researchers Wiersema,

Treacy and Wiersema identify three generic value disciplines (a.k.a. value propositions) that firms can use to compete. Keep in mind each of these generic value propositions can be contextualized using any of the three kinds of value propositions identified in the previous section.

Operational Excellence - The operational excellence value proposition communicates to customers the delivery of a quality product or service while attempting to differentiate that product or service based upon thoughts of best value. Typically the firm orients its internal activities and customer selection based upon the idea of delivering a highly efficient, low cost offering. McDonald's is a company that embodies the operational excellence concept.

Customer Intimacy - With customer intimacy the firm works to communicate and deliver and product or service experience focusing on the best customer solution for the segment chosen. The activities within the firm and customer selection emphasize processes, activities and messaging stress an intimate or highly emphatic relationship. Ritz Carlton is considered to be best in class in terms of customer intimacy.

Product/Service Innovation - The product/service innovation value proposition highlights the uniqueness or creativity associated with the product or service being delivered. Customer segments targeted by this value proposition are the early adopters that place a premium on leading edge offerings delivered by an innovative organization. Apple has seemingly cornered the market as of late using the product innovation approach.

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The importance of crafting a good value proposition cannot be emphasized enough. It really is the nexus of an organization's strategy. The value proposition represents the ideas and the supporting statements that link together the firm's activities, products and services with the needs of their chosen customer segments. So getting the segmentation and the specific messaging right is of paramount importance; if this fails to occur the means by which the firm's worth is communicated to the market will be diluted. Worse, it may completely miss the mark in terms of resonating with the ideal customer.

The starting point for any good value proposition—regardless of kind used—is the market. Based on my observations and work with many different firms (consumer packaged goods firms notwithstanding) the level of understanding of customer segments is low. Without up to date, detailed information about who is buying your products/services—as well as who is not—and why, it's almost impossible to construct a meaningful value proposition. The generic value propositions listed above help, but they aren't a replacement of the kind of analysis essential to credibly communicating your product and service value to the market.

For More Information

Magazines & Journals

Anderson, J. C., Narus, J. A., and van Rossum, W. *Customer Value Propositions in Business Markets*, Harvard Business Review, March 2006.

Wiersema, F. D., Treacy, M. and Wiersema, F. *Customer Intimacy and Other Value Disciplines*, Harvard Business Review, January 1993.

Books

Kaplan, R. S., and Norton, D. P. Strategy Maps: Converting Intangible Assets into Tangible Outcomes, Harvard Business Publishing, 2004, pg 38-43.

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