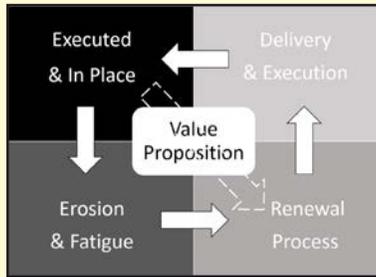


# Building a Distinctive and Compelling Value Proposition



If an organization wants to be successful with their value initiatives, they must spend considerable time and efforts designing, developing and operationalizing a distinctive and compelling customer value proposition, which will then become the backbone on which to build a value training program for the sales force. This article presents a strategy for building and maintaining a successful value proposition. Stephan Liozu, CPP ([www.stephanliozu.com](http://www.stephanliozu.com)) is a member of the PPS Board of Advisors, the Founder of Value Innovation Advisors and specializes in disruptive approaches in innovation, pricing and value management. He is leading a 2-day workshop on Change Management at the 26th Annual PPS Workshops & Conference (May 5-8 in Dallas). He earned his PhD in Management from Case Western Reserve University and can be reached at [sliozu@case.edu](mailto:sliozu@case.edu).

Ask 100 business professionals about a definition of value and you will get 100 different definitions. Ask the same 100 people how they understand the concept of value proposition and it will equally be all over the board. Value is hard to grasp and conceptualize (Liozu, Hinterhuber et al. 2012). The term value proposition has been used to mean a lot of different things. Some define it as customer benefits or a firm's offering. Other conceptualize it as the way to differentiate in the market place or a business strategy (Barnes, Blake et al. 2009).

Value management requires a discipline across the board to make sure the process is managed from the creation side of value to the value capture through value-based selling and negotiation for value. At the center of the value approach is the definition of a strong value proposition that guides all innovation, marketing, pricing and commercial actions as shown in [Figure 1](#) below.

The customer value proposition is at the heart of everything that the firm does for its customer. In essence, it is everywhere and anywhere and it is the *raison d'être* of any organization. If you adhere to the following statement by Peter Drucker, then you understand the need to design, elaborate and communicate a compelling value proposition:

*The final question needed in order to come to grips with business purpose and business mission is: "What is value to the customer?" It may be the most important question. Yet it is the one least often asked. One reason is that managers are quite sure that they know the answer. Value is what they, in their business, define as quality. But this is almost always the wrong definition. The customer never buys a product. By definition the customer*

*buys the satisfaction of a want. He buys value.*

— Drucker, *Management: Tasks, Responsibilities, Practices*, 1993

## Defining Value Proposition

*"Strategy is based on a differentiated customer value proposition. Satisfying customers is the source of sustainable value creation. Strategy requires a clear articulation of targeted customer segments and the value proposition required to please them."*

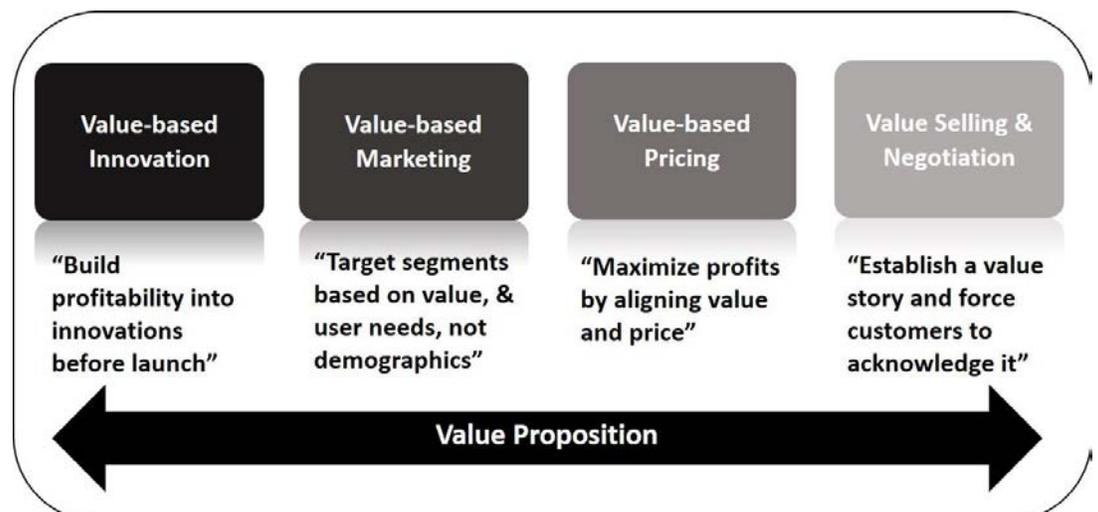
*Clarity of this value proposition is the single most important dimension of strategy".*

— Kaplan & Norton, *Strategy Maps*, HBS Press, 2004

While there is no agreement of wide consensus of what constitutes a customer value proposition (Anderson, Narus et al. 2006), there are some definitions and categorizations that might

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Figure 1: The Discipline of Value Management



be interesting to explore. A value proposition articulates “the essence of a business, defining exactly what the organization fully intends to make happen in a customer’s life” (Barnes, Blake et al. 2009:22). It is the living force that casts its influence across all the activities and actions of an organization (Hardy 2005). A company with a successful business model is one that has found a way to create sustainable value for its customer and can get an important job done for them (Johnson, Christensen et al. 2008). A successful customer value proposition is as strong as its level of precision to get that job done for customers. Does it perfectly “nail” the customer job to be done whether it is to propose a solution, deliver an offer, solve a problem or create a unique experience? The critical word in all these definitions is the word essence. We would add to it that a firm’s or business unit’s customer value proposition is the essence of its existence in the marketplace and for its customers. Many practitioners consider the value proposition as the core of the business model and the corporate strategic plan, as shown in [Figure 2](#).

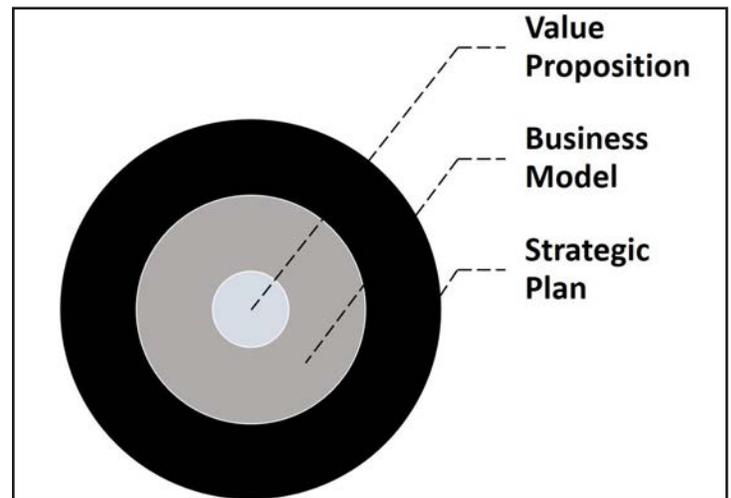
Armed with an impactful and compelling customer value proposition, business professionals can articulate their business models around this unique and differentiated value proposition and connect internal capabilities, external dynamics and other relevant variables to it. The customer value proposition is one of the four critical elements of a business model, the other three being the profit formula, key resources and key processes. These four interlocking elements (Johnson, Christensen et al. 2008), taken together, create and deliver value.

Finally, when the business model is well defined, articulated and visualized for the organization to see, live and breathe, the process can proceed to a more detailed strategic planning exercise. A strategic plan projects the profit formula over a 5 to 10 year period and combines some critical considerations for the business such as asset planning, operating metrics and human capital planning. The strategic plan shall not be confused with the business model or the value proposition. Many firms neglect the intentional process of articulating and designing the customer value proposition and the business model. For many of them, their strategic planning process is limited to a rolling five-year plan that discusses business model and strategy to a limited extent. It is not unusual to see discussions about customer value propositions relegated to specific marketing activities or to commercial tactics.

### Build a Compelling Value Proposition

Building a compelling value proposition seems to be easy at first hand. Conduct voice-of-customer research, conduct a thorough competitive analysis, design your pricing models and then you are good to go. Well that is a start. You do need to gather the

Figure 2: Value Proposition at the Heart of Strategy



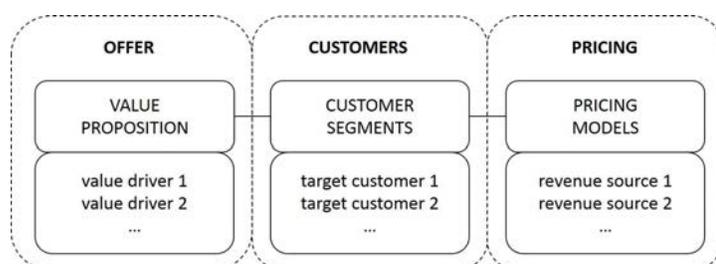
right kind of information to feed and inform your customer value proposition. The most difficult part of the exercise is to identify the aforementioned essence: what is the job that the organization is supposed to do for the customers and how do we make sure the offer delivers the WOW factor to impress them. This is when the rubber meets the road. Most business executives think they are good at doing this.

In reality most of them lack the skills to ask the right questions (Dyer, Gregersen et al. 2009) (questioning), the proper ability to connect the dots (associating and connecting), the capacity to adopt a network view of value (networking) but also the skills to conduct a true value discover process (observing and discovering). Building a compelling value proposition is a tough and rigorous process. It requires skills and capabilities at the nexus of marketing, innovation, strategy, research, and creativity.

*The Value Discovery Process:* the value discovery process is a framework designed to extract the true differentiation value of an organization. This formal process starts with the assembling of a multi-functional team of A-players and top talent in the organization that are abducted from the day-to-day business and secluded in a quiet place multiple times to conduct this profound and breakthrough exercise.

The framework starts with the refreshing of the current segmentation strategy, breaks down the current value proposition, gages the level of true differentiation of the existing proposition, and engages in a renewal process. The renewal process is aimed at identifying new critical value drivers, customers’ hidden needs and the organization’s hidden assets. The heart of the renewal process (as shown in [Figure 3](#)) is to redefine the value proposition and the relevant value drivers, match them with the customer segments and define appropriate revenue or pricing models.

Figure 3: The Heart of the Value Proposition



As you can imagine, the discovery team is working in parallel to the day-to-day operations over a period of time under the leadership of a charismatic and creative leader. This team has to be able to challenge the status quo, have candid and mindful conversations on what unique means or doesn’t mean, and have the mandate to bring back differentiation power to the core value proposition. This is why you need to bring your best gun

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to the table.

Some of the questions they will have to answer are:

- What makes us truly unique? How different are we? What makes us special?
- Why are customers still buying from us?
- What happens if we disappear? How do customers survive?
- What if a competitor with \$100 million comes in and copies us? What would happen?
- What are the must-haves and the true differentiators?

You cannot answer these questions with traditional analysis and research assignments because you will obtain the same responses and will fall into the trap of routines and established schemas. You also need to focus on long term differentiation in your value proposition, as Steve Jobs pointed out in the quote below.

*“You can’t just ask customers what they want and then try to give that to them.*

*By the time you get it built, they’ll want something new.”*

— Steve Jobs

You have to use the most progressive discovery tools to create a compelling offering that will “get the job done” for customers (Johnson, Christensen et al. 2008) and deliver superior value. So how do you know when you have designed a compelling value proposition? What makes it compelling enough that you can deploy it across the organization?

*The 8 I’s of a Compelling Value Proposition:* Based on the work published by Jose Palomino (2008), I identified the 8 critical characteristics of a compelling customer value

**Innovation – what’s new?**

**Indispensability – what’s useful?**

**Inspiration – what’s WOW!**

proposition. Jose Palomino designed the I<sup>3</sup> Value Proposition as follows (2008:17):

I borrowed innovation, indispensability and inspiration from Palomino’s work and added five more critical characteristics as shown in [Figure 4](#).

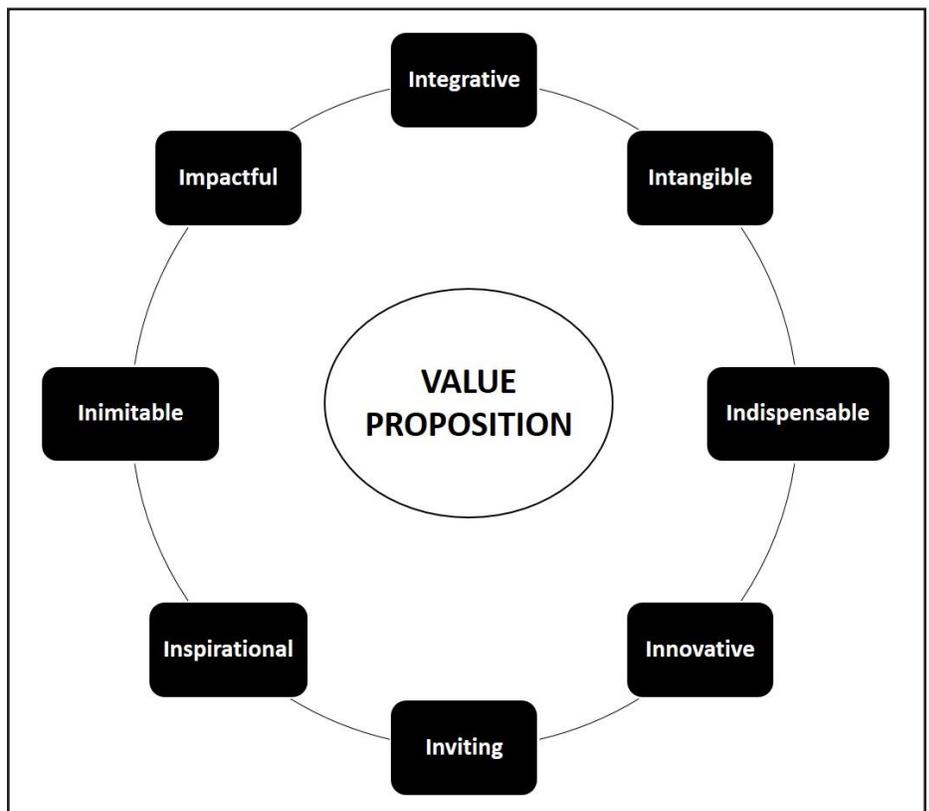
1. **Integrative:** A customer value proposition has to be totally integrative and needs to include the most relevant part of the offering. That includes products, services, solutions, systems and any other intangible elements of the organization’s offer. The value proposition cannot just be reduced to the product offering. The business world is getting more complex by the minute and, as a result, so do value propositions. This

notion of integration also suggests that all relevant stakeholders have to be considered when establishing value and revenue models. The emerging concepts of value networks and value co-creation reinforce the need for an integrative value proposition.

2. **Intangible:** The notion of intangibility is critical in the age of customer experience, customer intimacy, and customer delight. Too many firms focus on physical and tangible dimensions of their value propositions when in fact customers want overall ease of use, a superb usage experience and a strong connection with brands. The value proposition should clearly take into account both the tangible and intangible parameters of the organization’s offering. But the overall framing of the value proposition should focus on delivering an emotional and psychological experience based on what the customer really wants. That is when it gets tricky, especially for B2B or industrial firms that are used to promoting their regional structures or their pools of manufacturing assets.
3. **Indispensable:** By creating a powerful customer value proposition, you have to find out how to become indispensable in the mind and in the process of your customers. A simple way to find out is to study your unique value proposition and to understand how a customer would survive if you went out of business. Would you shut down the customer process? It is obvious that being considered critical or essential suppliers has implications, and it might not be good for the customer to have all their eggs in one basket and to potentially face a process shut down. But bottom line, indispensability is a blessing and a curse. It has to be managed carefully and cannot be abused. It also leads to superior value delivery

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Figure 4: The 8 I’s of Value Proposition



and pricing power if you are truly in that situation.

4. **Innovative:** *"Innovation is powered by convictions born from an idea's core values"* (Hardy 2005:3). Most customer value propositions are built on top of a new idea, a new concept, a new system or a new venture. Customers expect innovation from their vendors in order, in turn, to bring innovations to their customers. The customer value proposition will have to focus on what is new to the world or to the market. Newness and innovativeness can become a true differentiator in some industries where innovation rates are traditionally low. Bottom line, the discovery process in the value management process should uncover new concepts, unique offerings or hidden needs that will be carried over the customer value process.
5. **Inviting:** A customer value proposition must be inviting for employees to read, look at, and operationalize. The customer value proposition statement should send an invitation to customers to join a tight community of friends and family. The language and words used in this statement should be carefully selected to carry the right meaning so that it resonates with customers. There is a big difference between a customer value proposition and a customer value proposition statement. We will discuss this in the next section.
6. **Inspirational:** A customer value proposition should trigger the customers' imagination about the possibility of doing business with your organization. It should project the possibility of future success and a sense of hope for customers. Equally important, an inspirational value proposition should excite employees to participate with passion and drive. In fact, it should generate excitement with all relevant stakeholders. *"Inspiration and design excellence target the knowledgeable observer who looks at your product and says 'WOW, it's incredible that they managed to do that'"* (Palomino 2008:68). This notion of inspiration in a value proposition reinforces the need for a very robust customer segmentation process. Not everyone will find it inspirational. The segmentation process should be focused at identifying the groups of customers who will say WOW!
7. **Inimitable:** This is perhaps the most critical characteristic of a compelling customer value proposition. As part of the buying process, customers will compare vendors' offering and try to make an apples to apples assessment. Competitors will also try to imitate or copy your offering and will pretend they can match what you do. This is an important step of the economic value estimation process (Hinterhuber 2008). There are three kinds of value propositions (Anderson, Narus et al. 2006): A. all benefits: those who list all benefits to the customer and will dilute the effect of a few genuine points of difference; B. favorable points of difference: those that explicitly recognize that the customers have a choice and stress points of difference between alternatives; C. resonating focus: those that concentrate on one or two compelling

This compelling and powerful value proposition needs to be used in multiple activities to build and develop a culture of customer value.

differentiators and articulate a Distinctive Value Proposition (DVP). So the bottom line is the following: How unique are you? How comparable are you to the next best alternative? What is your level of superiority? Can you be easily imitated? If your customer value proposition and your offerings are truly inimitable or incomparable, you have achieved true differentiation. With this then comes the responsibility to educate your customers on the essence of your value offering to monetize the uniqueness of your offering.

8. **Impactful:** Last but not least, your customer value proposition should resonate with customers and deliver a strong BANG. The most powerful BANG is one number, and that number is the total annual dollar savings or incremental revenues you will bring to your customers if they select you (Macdivitt and Wilkinson 2011). A Distinctive Value Proposition (DVP) (Anderson, Narus et al. 2006:3) should "steadfastly concentrate on the one or two points of difference that deliver and whose improvement will continue to deliver, the greatest value to target customers." Impactful also means focused. More is not better in customer value proposition. Focus on the one or two critical unique value differentiators.

*The Elevator Speech:* There you have it. You have designed a very compelling customer value proposition and may be, if you have uncovered something truly unique, a DVP. So the question becomes, what do you do next? How do you operationalize it? A customer value proposition is not for public

consumption. It is a very unique and confidential document or concept that has to be kept secret. The analysis and the process that led to its development also has to become confidential. The next step is to extract a value proposition statement to communicate with your organization and with the market. This statement will be a reflection of the essence of the offering you bring to your various stakeholders. It is for public consumption and needs to be used religiously in all internal communications. A good value proposition statement is short, crisp, creative, but also very simple for everyone to grasp.

### Leveraging your Value Proposition

The job is not done when the customer value proposition is designed and finalized. In fact, the job has just started. This compelling and powerful value proposition needs to be used in multiple activities to build and develop a culture of customer value. Research studies have documented the difficulties in changing the DNA of an organization from cost to value (Forbis and Mehta 1981, Liozu, Hinterhuber et al. 2012).

*Strategic Alignment:* The customer value proposition has to be understood and adopted by all critical top and middle managers. In fact, in order to operationalize the value proposition, leadership is going to have to create strategic alignment within the top leadership team and also across leadership layers. This is why working with multi-functional teams to define the value propo-

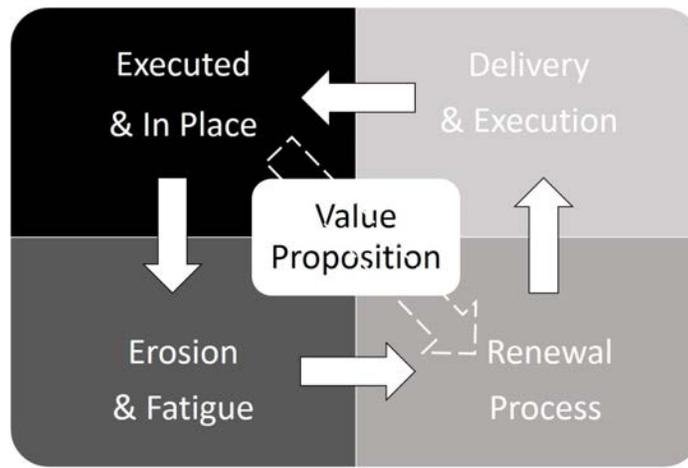
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sition can have strong positive implications. Because multiple functions and layers of the organization were involved in the design of the customer value proposition, they have skin in the game and will become strong supporters to spread the word. Never under-estimate the power of a strategically aligned team.

*Communication Strategy:* I have found that a powerful value proposition visual and a customer value proposition statement can be combined and integrated in a focused communication strategy to generate organizational buy-in and to build organizational confidence (Hinterhuber and Liozu 2012).

*Training and Organizational Development:* The customer value proposition should be systematically included in all training and organizational development programs. New employees should be trained on it during the on-boarding process. The sales force should go through a rigorous training program on what makes the value proposition unique and compelling. Research shows that the more training one organization does on the business model, the customer value proposition and the critical elements of differentiation, the greater the confidence of the sales to sell on value instead of price (Anderson, Kumar et al. 2007, Liozu, Bolland et al. June 2011). Any value selling training programs should include a module of all these elements. The sales force should memorize the critical elements of the customer value proposition

Figure 5: Breakthrough Value Management Process



stories that can be blended with casual conversations with customers. Remember that competitors will use the same marketing content as you do. They will define the same messages and will select the same key words. One way to differentiate your value selling process is to teach your sales and marketing professionals how to use words, images, anecdotes and metaphors to tell stories. These are the unique skills that your competition cannot easily copy. It also demands that you have something unique to say! Stories have to be inter-

esting, inspirational and convincing. Selling then becomes less of a hard sell using product attributes and rational parameters and more of a soft approach based on selling hope, possibilities and future success. Easier said than done.

### Building a Dynamic Value Proposition

*The Case for Adaptation:* things are moving all around us all the time and at the speed of light. The case for business model innovation and value proposition renewal has never been so strong. Competitive landscapes shift in a heartbeat (Johnson, Christensen et al. 2008) and the complexity of the business world (Liozu 2012) has made value management a dynamic exercise. A customer value proposition cannot remain static. Because value is future oriented, subjective and referenced-based (Hinterhuber 2008), the components of a compelling value proposition have to be revisited regularly.

*Breakthrough Value Management:* the difference between value outperformers and underperformers is in the approach to when and how customer value proposition and business models should be disrupted. The traditional way of managing a value proposition is to wait for a crisis or for a disruption to happen to reach the stage of a needed renewal (as shown in Figure 5). The disruption or the competitive shift force executives to explore the root cause of the problem. Sometimes value propositions suffer from inertia and are too static in nature. That leads to some erosion in its differentiation power and to customer fatigue with the value proposition. That also leads to greater frequency of discounting and to a demoralized sales force. These punctuated stimuli from the market will force organizations to react and to go through a renewal process, thus creating new possibilities for the business. From this process, a new customer value proposition or business model emerges and replaces the old one. Research has shown that firms go through these cycles of changes and adaptation (Gersick 1991). The issue is that most firms wait for a crisis to happen before they engage in the renewal process of their customer value proposition.

A better way to manage value propositions and business models is to proactively disrupt them before the crisis comes. Proactive and disruptive change is not easy especially when an organization is successful. The issue is that it is when they become successful that organizations and their leaders become complacent

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One way to differentiate your value selling process is to teach your sales and marketing professionals how to use words, images, anecdotes and metaphors to tell stories.

and elaborate top ten lists of things to consider to handle pricing and differentiation objections. Any employees with customer touch points should also be given value messages supporting the customer value proposition and be trained on it. Finally, all employees should be required to be able to recite or clearly articulate the value proposition statement. That is why it needs to be crisp, short and simple.

*Less Marketing and More Story Telling:* in the end, a modification of an organization's DNA towards value requires less hard core marketing messaging and more storytelling. Marketers should equip the sales force with impactful success stories that generate a sense of hope and help rationalize the notion of future value. Forget the bullet points in the sell sheets. Focus on emotional

and lose focus on the core essence of the value proposition. Creating proactive mini-crises in your value proposition and disrupting your business model in anticipation of large market events are breakthrough management concepts. They require a different approach to business and to leadership. They require a sense of mindfulness and a courage from top leaders to challenge the status quo to constantly reinvent themselves and their value proposition. Are you waiting for someone to disrupt your value proposition? Or are you controlling your destiny and regularly revisiting your value proposition to reinforce its differentiation power and the level of customer delight?

*How often do you revisit your Value Proposition?* There is not easy answer to this. A mindful leader will stay close to it front lines and sense potential fatigue in the value proposition (Liozu, Hinterhuber et al. 2012). There are easy signs to look for. Margin erosion and the number of price concessions can be used as red erosion flags. Leaders need to stay in close contacts with customers and their sales force. When the first signs of customer fatigue or price erosion happen, it is time to self-disrupt. My experience shows that regularly challenging and questioning the organization's value proposition with multiple organizational actors is healthy.

### **Managing Your Value Proposition**

After reading this paper, you might conclude that managing a customer value proposition process is not as easy as it appears. Someone needs to be in charge of it.

*Who is in Charge of Value?* Who should that someone be? Generally speaking, marketing will claim ownership of the management of the customer value proposition. That is one to look at it especially as marketing is the R&D of the sales process. I prefer to elevate the value management process to the C-suite and to give overall responsibility of the process to the CEO.

Recently, there have been discussions about the emerging role of the Chief Value Officer (Liozu and Baker 2012). If an organization is serious about managing value and customer value propositions, they need to have someone in the executive suite formally managing the process. Obviously it is clear that, in the end, everyone is responsible for value. The role of the CEO is fundamental in the value transformation (Liozu and Hinterhuber 2012) and to make value part of the DNA for the long term.

*Value Proposition Innovation Process:* As with business model innovation, the value proposition should be managed as part of a rigorous innovation process. There should be regular and candid reviews of the customer value proposition as part of the organization's strategic innovation process. Managing and modifying the value proposition cannot be improvised and informally managed. There are serious implications to modifying and refreshing it. There is a need for experts to manage that process and manage the risks associated with it.

### **Conclusions**

The message is crystal clear. If an organization wants to be successful with their value initiatives, they must spend considerable time and efforts designing, developing and operationalizing a distinctive and compelling customer value proposition. The value

proposition will then become the backbone on which to build a value training program for the sales force. Building a compelling value proposition is not an easy process. It requires skills, a structure, a leadership approach, and a formal process. It requires a culture that is opened to candid conversation about value and about the power of differentiation. In my experience, most leaders do not like to admit that their business model is broken or that their value proposition has weakened. That realization is part of the process of renewal. I conjecture that managing a customer value proposition is an ongoing process that necessitates proactive change and energy. You cannot lose focus on the essence of your value proposition. The power of a distinctive customer value proposition will be directly correlated to the success of your value-based strategies.

If an organization is serious about managing value and customer value propositions, they need to have someone in the executive suite formally managing the process.

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