

The Value Proposition

A step by step guide to the most important
piece of small business growth



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I can't tell you how many discussions I have had with small business owners over the last year about the latest small business marketing and sales tools: branding, SEO, internet advertising, and of course social networking. It started me thinking about how infrequently discussions occur about fundamental business principles, like developing a marketing plan or a sales funnel. The fact is that utilizing the latest business theories or tools won't help you nearly as much as mastering the fundamentals, yet the basics are far away from a networking group or small business blog.

For this eBook, we will cover the most fundamental principal of marketing your business: The Value Proposition. The Value Proposition is called many things, from unique selling proposition to branding. At its heart, the Value Proposition is your message to your customers and prospects about how you will satisfy their needs better than the competition. It is the most important strategic exercise that your business can go through, and will determine your company's eventual success or failure. After all, working on something that will determine whether customers will or will not buy your product or service is bound to have HUGE implications for your business.

The Value Proposition should be the first thing a company creates, and almost everything flows from there. All marketing and sales activities are built around distributing the Value Proposition, while all customer service and customer relationship management activities are based on fulfilling the Value Proposition. If you are spending money on marketing and sales activities, investing in creating or refining a compelling Value Proposition is critical.

Developing your Value Proposition involves three phases: Research, Build, and Adapt. We'll outline each phase in the following pages, and give you a couple of basic implementation tips.

PHASE 1: RESEARCH

Like many good projects, insightful research provides a solid foundation from which to build. Because the Value Proposition is about meeting customers' needs while out-maneuvering the competition, your research will focus on understanding your target customers' needs, how your competition tries to satisfy them, and how you currently satisfy them.

Step 1: Look through the eyes of the customer.

The customer holds the purse strings, and will determine whether you or your competition gets their hard earned money. Understanding their wants and needs is a key to convincing them to spend it with you. There are essentially two questions that you have to answer to have a good sense of your customers and prospects. **First**, what kinds of criteria will my target customers use to determine who they buy from? **Second**, how will my target customers' buying criteria change in the future? Look at the table to your right: Tijuana Taco Stand

Your business: Tijuana Taco Stand	
Customer Type	Business Lunch Customer
Criterion 1	Quick Service
Criterion 2	Authentic Guacamole
Criterion 3	Combination Lunches
Future Criterion 1	Pay with Credit Card

has just put together the list of their customer's needs/buying criteria based on customer type. The criteria are the things that will largely determine where "business lunch customers" will go to eat lunch, and meeting their current and future needs will determine the success of your business. As you answer these questions for your business, start creating a list of all the current and future needs by customer type. Step two will help you understand how your competition is trying to meet those needs.

TIP1: If you run a company with a long sales cycle, offer your customers an incentive to tell you the story of their purchasing process.

Step 2: What is your competition telling the customer?

Unfortunately, your competition is also trying to meet the needs of the same target customers as you. Take the list of customer needs that you have created in step 1, and determine which needs your competitors are trying to satisfy. Doing this will give you a sense of which customer needs are promised to be satisfied by all of your competitors (this part will be vital later), which customer needs are met by only some competitors, and which customer needs still remain unmet. As you can see in the table below, it looks like everyone has quick service, but no one serves authentic guacamole. It also looks like the customers are getting tired of paying with cash, and will want to pay with their credit card soon.

Customer Needs	BorderSouth Taco	Jorge's Tacos	Tasty Taco
Quick Service	Satisfy	Satisfy	Satisfy
Authentic Guacamole	Don't Satisfy	Don't Satisfy	Don't Satisfy
Combination Lunches	Don't Satisfy	Satisfy	Satisfy
Pay with Credit Card	Don't Satisfy	Don't Satisfy	Don't Satisfy

TIP1: If you're having trouble determining your competitors, figure out which companies are trying to meet your target customer's needs.

TIP2: If you want to know what your competition is telling prospective customers, just check out their marketing and advertising efforts. For example, Apple talks about both

the needs that Windows fails to meet, as well as the needs that Apple is promising to meet.

Step 3: What are YOU telling potential customers?

Now that you have a sense for the customer and your competition, it's time to focus on you. There are two steps to this process. **First**, create a column next to your competitors for yourself, and start filling in the needs that you have historically met. **Second**, determine which customer needs are not being met, and start to think about whether you would like to meet them. If you can meet the unmet needs, you now become "horizontally differentiated" from your competition, which is the holy grail of Value Propositions.

For the Taco Stand market, it appears as though all customers have become accustomed to quick service. It also

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Pay with Credit Card	Don't Satisfy	Don't Satisfy	Don't Satisfy	Don't Satisfy

looks like you might be losing business to competitors that offer combination lunches. But there also seems to be an opportunity to offer fresh guacamole, and allow customers to pay by credit card.

PHASE 2: BUILD

Now that you have done your research to understand the customers, competition, and yourself, it's time to put your effort to work. The second phase is "Creating Your Value Proposition", and involves the Value Proposition formula: Points of Parity + Points of Differentiation = Value Proposition. One note on points of parity and points of differentiation: they are dynamic so they can change over the course of time, and your job is to make them work in your favor.

Step 1: Identify Points of Parity: Points of Parity (PoP) are customer needs that both you and your competition meet, so neither company has an advantage. These points must be mentioned in your Value Proposition, as customers normally consider these "order qualifiers", or criteria that must be met in order to even consider your product/service. During your research you should have discovered the kinds of needs that all your competitors (and hopefully yourself too) satisfy. If you glance up at the Tijuana Taco table on the previous page, you will notice that everyone offers quick service, which is probably something that the business lunch crowd can't do without.

Step 2: Points of Difference: As I am sure you guessed, Points of Difference (PoD) are your (or your competitors') ability to satisfy the needs of the customers better than the competition, or satisfy needs that have gone unmet to date. Take a look at your list of customer needs, and determine where your company can meet those needs better, or address needs that your competitors have ignored.

It appears as though all of Tijuana Taco's target customers hold "quick service" in high regard.....could Tijuana

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Tacos offer even quicker service than their competition, and would it better satisfy the business lunch customers' need for quick service? It also looks like business lunch customers want authentic guacamole, but no taco stands are offering it to them. Points of differentiation serve as "order winners", and will influence your target customers to purchase your products/service over your competitors. When you have found those points, you will have found the points that will drive your company to success. Don't worry if you don't find those points right away, often they take time and planning to develop.

TIP: As you explore customers' unmet needs, think about the level of effort it would take to meet those needs, and the benefit you would need to make the effort pay off. If Tijuana Taco's would like to serve guacamole, what will it cost to buy the ingredients and make the guacamole at the taco stand? Will they have to hire an extra person to make the guacamole? If not, will making the guacamole cause their service time to be longer, and prevent them from meeting the "quick service" need?

PoP and PoD are Dynamic: It is important to understand that companies are in a constant battle to turn their competitors' Points of Difference into Points of Parity. Doing this will nullify the competitors' advantage, disposing of their threat. A great real world example of this is Apple, which created a Point of Difference for themselves with their iTunes application store. Blackberry, Nokia, Google, and many wireless carriers are attempting to clone Apple's App Store, creating Google Market, Blackberry App Store, and Nokia's Ovi Store. This is an attempt to turn Apple's Point of Difference into a Point of Parity. Time will tell if Apple's competitors can nullify Apple's competitive advantage, but rest assured this interplay is all about PoP and PoD. In our Tijuana Tacos example, if Borderland Taco starts to serve fresh guacamole, customers will start to flock to Borderland. As the owner of Tijuana Tacos, what would you do? You'd offer fresh guacamole too! As you look at the Points of Differentiation for both yourself and your competitors, think about how you can nullify some of your rivals' PoDs while sustaining your own.

TIP: Think about how much effort (in time, manpower, and money) you will have to put into making a competitor's PoD a PoP. The best PoDs are the ones that are hard to copy.

Step 3: Think Possibilities: Make no doubt about it, the Value Proposition is a strategic process. This is primarily true because fulfilling your PoD promise or turning a competitor's PoD into a PoP often takes a tremendous investment of both time and money. Tijuana Tacos is not talking pinto beans if they decide to add a credit card machine. They need to sign a contract with a credit card processor, purchase a wireless credit card machine, and let the credit card company skim a little off the top of their profit margin. That's quite the cost to Tijuana Taco, and they need to know if it will attract enough money from customers before their competitors also offer payment by credit card. Although the Tijuana Taco Stand example is a simple one, understanding the implications can get very complicated very quickly. Those of you who enjoy chess or game theory will love this process, while the rest of us will find it very challenging. Nevertheless, when you start to think about creating a PoD or turning a competitors PoD into a PoP, you need to think about all the possibilities. How much will it cost me to do this? If I do it, how will my competitors react? How then will I react? In the end, will doing this help me make a better profit?

TIP: If this process is confusing for you, learn how to make a decision tree.

Step 4: Rules for writing the Value Proposition

Now that you've gone through all these steps, it's time to put pen to paper. But before you do, there are several rules that you must follow to make sure that your Value Proposition will be compelling for your target customers.

First, you need to be clear about who you are trying to talk to at the beginning of your Value Proposition. Identifying your audience can help your potential customers quickly qualify themselves when hearing your message in a diverse audience. "Want to get out of the office for lunch? Tijuana Tacos.....". Automatically the business lunch goers know you are talking to them, and perk up to hear your message.

Second, tell them what you do. I've met a lot of people that can spend an hour telling me what they do. In a Value Proposition, it needs to be condensed to a couple words. For this piece, focus on what you actually do as opposed to the result. In the case of Tijuana Tacos, they make authentic Mexican food, instead of administer food-comas.

Third, you need to list the PoPs. They are order qualifiers, and if you don't have them you won't be considered by your prospective customers. Unless Tijuana Tacos says they have quick service, it is unlikely that they will be considered alongside BorderSide, Jorge's, and Tasty Tacos as a quick lunch spot. The good news here is that you don't need to be specific; you just need to let everyone know that you've got what everyone else does.

Fourth, you need to list the PoDs. These are your order winners, and should be listed last in your Value Proposition. They must be specific; saying that you offer "fresh guacamole" is not enough. "We make our guacamole right in front of you" is better. If customers are hyper-critical of your ability to deliver on your Value Proposition, you can give them collateral: "If we don't make the guac in front of your table, it's on us."

Fifth, promise only what you can deliver. How would you feel if you went out for lunch at Tijuana Tacos, and it took 15 minutes to get your food? A little ticked off? A little betrayed? Would you come back? Probably not. If you promise the customer something, you had better deliver.

Sixth, put it on paper. Customer + PoP + PoD = Value Proposition. Don't worry about it sounding sexy the first time you write it, because it won't. "For business lunch customers, Tijuana Tacos is a quick authentic Mexican taco stand that makes fresh guacamole right in front of you." Now look at Tijuana Taco's Value Proposition statement through the eyes of the customer. You know Tijuana Tacos is talking to you, you know that they serve fast authentic Mexican tacos just like BorderSide, Jorge's and Tasty, and they offer something you wished the other taco stands did.....fresh guacamole! Make sure to play around with the wording until you get something you like, but make sure all the substance is there and you're not misleading customers.

PHASE 3: ADAPT

So now that you have written your Value Proposition, your customers should start flying in the door. Rest assured though, BorderSide, Jorge's, and Tasty Taco are all going to be wondering why customers aren't frequenting their taco stands anymore. They will soon realize that it's because of Tijuana Taco's fresh guacamole, and they will do their best to start offering it themselves. In Value Proposition speak, they are going to try to turn Tijuana Taco's PoD into a PoP. This dance between competitors is always happening, and those that are able to predict the competitions' next move and adapt their Value Proposition will win.

Step 1: Revisit your research

It's never a bad time to take another look at your customers' needs, and your competitors' offerings. For Tijuana Tacos, re-visiting the research will help them keep track of how well business lunch customers' needs are being satisfied, if there are any new needs that they didn't know about before, and if there are any needs that might arise in the future. Make sure you revisit your customers' needs and your competitions' response to them every quarter. This should keep you abreast of your competitors' efforts to create PoDs, and turn your PoDs into PoPs.

CONCLUSION

I hope this short E-book has been helpful. If you are still staring at the pages wondering "where do I start?", that's normal. Companies big and small struggle with Value Propositions, and consultants who have built them for years know that it never gets easy. Writing a Value Proposition will also force you to take a hard look at your company in ways that might not be flattering, and take a look at some competitors that might be getting it right. It certainly isn't an exercise in building self esteem, but it is an exercise that will help you build a wildly successful business.

If you are still wondering about how to get started, unable to dedicate enough time to build a Value Proposition yourself, or have an interest in enlisting the help of a marketing and sales consultant, I would be happy to speak with you. I have been working with companies to develop Value Propositions for the last 7 years, which has given me the expertise to create a customized process based on tested methodologies. If you would like to discuss your sales challenge, fill out the [contact form](#) on my website and mention that you read this eBook. I will dedicate a 30 minute meeting to help diagnose your challenge, and put together a customized plan to help you develop a unique Value Proposition that will drive success for your business.

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