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Three useful things to know about customer value propositions

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Business performance will be boosted for firms that get it right

The idea of a customer value proposition was first developed by Michael Lanning and Ed Michaels at strategy consultants McKinsey & Co in the late 1980s, but their guidelines were not published in the public domain until the early 2000s.

The concept of customer value propositions is now gaining traction and recently the term has been emerging in the titles of senior organisational roles, such as the director of value propositions at American Express.

But according to **Adrian Payne**, a professor in the school of marketing at UNSW Business School, any widespread development of a “rigorous approach to connecting and reinforcing the firm's offer of value to its customers” has yet to take hold.

So, what makes an effective customer value proposition?

CLEAR COMMUNICATION

Payne offers a formal definition as “a strategic tool facilitating communication of an organisation's ability to share resources and offer a superior value package to targeted customers”.

“In practical terms this means understanding what customers really value, how this might differ for major customer segments, developing an appropriate value offering to customers and communicating this effectively to customers as well as your own employees,” he says.

“Value propositions can be developed at the firm level, at a market segment level, and/or (for major business customers), the individual customer level.

“Firm level value propositions are especially important in that they can also provide internal guidance and strategic direction for employees.”

FORMAL AND ACTIONABLE

Marketing experts have described customer value propositions as “a firm's single most important organising principle” and “the essence of strategy”.

But according to Payne's research, though there is widespread usage of the term in companies, it is typically used in a very general manner and may not mean a great deal.

“It is difficult to accurately estimate how many companies have formal and actionable value propositions, and not simply motherhood statements,” Payne says.

“But estimates based on our research is that far fewer than 10% of large companies have developed useful and actionable written value propositions and communicated them effectively to both external and internal audiences.

“We have found that generally there is a lack of understanding and poor implementation in companies use of value propositions.”

And yet for firms that get it right, such as leading US packaging giant Sonoco Products, the boost to business performance is very clear to top management.

“[And] the success of companies such as Uber, which offers clear and compelling value propositions to both customer riders and drivers, illustrates the benefits of clearly articulating the differentiating characteristics and costs of the value proposition to key beneficiaries,” says Payne.

RESONATING FOCUS

Payne notes that value is a complex issue, but it's clear a value proposition should focus on the key benefits that can be calculated to show superior value to chosen customer segments, or what has been termed 'value in use'.

“[Relatively scarce] existing research suggests that the best form for a value proposition is one of 'resonating focus', where the key benefits, compared to competitive offerings, are highlighted for chosen customer segments. Here the relatively few points of difference that make the greatest impact on customers are the important elements to focus on,” says Payne.

“One mistake many companies make is developing nicely worded unidirectional value propositions within the company, with insufficient reference to understanding and engaging customers in what they value. Companies can no longer rely on an approach where the customer is viewed simply as a passive recipient of value.

“Companies in consumer goods and services could take a lesson from their colleagues in the business to business (B2B) sector, where routinely value propositions are crafted and co-created in conjunction with customers.

“Leading B2B companies such as SKF, have developed formal approaches for crafting value propositions, including value quantification, value documentation and value verification,” Payne says.

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