



CLARITY

In the Eyes of the Beholder

The Issue

How do customers make choices about buying? Not their processes, but rather what happens in their heads to build a case for one offering versus another? Companies take many approaches to understanding customer behaviors and are especially confused when behaviors don't match expected preferences.

Clarity Perspective

The value proposition is foundational to any choices made by customers or vendors. But the concept of a value proposition has been taken by many to mean what a company tells its customers – a selling statement or tagline. A value proposition is an internal tool that is both richer and more objective than this.

A value proposition is a target customer's perception of total value associated with an offering versus alternatives.

- ❖ Philip Kotler describes value as “*The difference between total customer benefits and total customer cost. Total customer value is the bundle of benefits customers expect from a given product or service. Total customer cost is the bundle of costs customers expect to incur in evaluating, obtaining, using and disposing of the product or service*”. Value not only includes “rational” issues such as price or a productivity enhancement, but it also includes “irrational” issues such as trust, the “cool factor” or doing good for society.
- ❖ And perceptions are more important than facts. Peter Drucker agrees by saying, “*What the business thinks it produces is not of first importance. What the customer thinks he is buying, what he considers value, is decisive.*” To be sure, perceptions can be changed through both actions and communications, but they are what the customer believes they are – nothing more or less.
- ❖ If a customer does not accept a company's offering, he/she will do “something else” instead. “Something else” may include purchasing another company's offering, a do-it-yourself solution, or that very tough competitor, do nothing. The most compelling “something else” is the only alternative that matters.

People make choices based on whether those choices will make them “better off”, which is entirely in the eyes of the beholder. Put into business terms, when customers make choices they always weigh perceived benefits minus perceived costs (“value”) and compare them with alternative behaviors, whether consciously or not. The resulting evaluation they perceive is the value proposition to them (see figure), whether or not it was intended by the vendor.

Value Proposition

| | |
|-------------------------------|---|
| Who | Target Customer |
| Action | Target Customer's actions associated with this choice, as opposed to doing “something else” |
| Alternative | The Target Customer's most attractive “something else” |
| Benefits/ Pleasure | All benefits that the Target Customer perceives, each relative to the best alternative |
| Costs/ Pain | All costs that the Target Customer perceives, each relative to the best alternative |

Recommendations

An objective value proposition should drive all product and service development, capability building, and go-to-market activities rather than being an outcome.

Every customer segment will have its own unique value proposition, expressing the differences in value needs of those segments.

Effective value propositions tell a story, and are compelling, profitable and sustainable over time.

It's hard work to do this well, but doing so can dramatically increase your odds of success.