

Price is what you pay. Value is what you get.

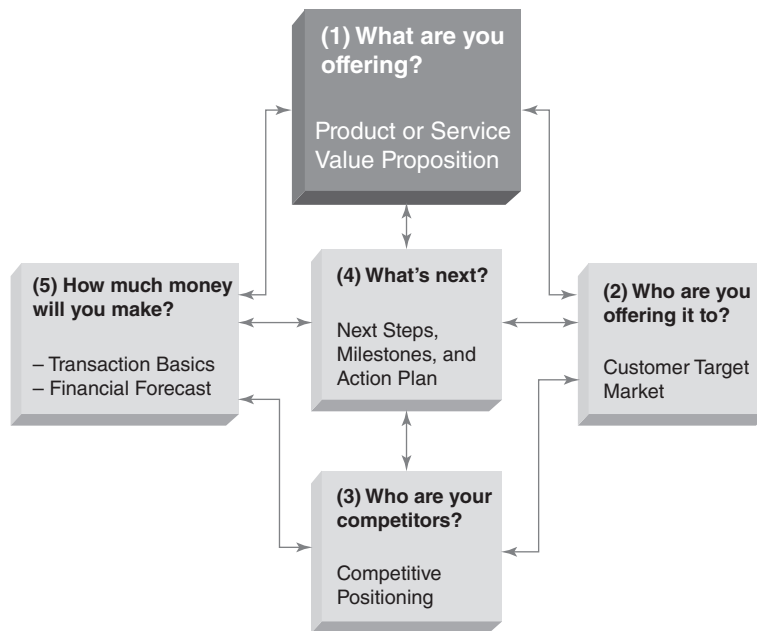
—*Warren Buffett, American investment
entrepreneur and philanthropist*

MODULE 1

What Are You Offering?

Create a Value Proposition
That Makes a Stronger
Business Model





**Figure 1.1 The One-Hour Business Plan™ Foundation
—Five Essential Business Plan Cornerstones**

Investopedia defines a value proposition as “a business or marketing statement that summarizes why a consumer should buy a product or use a service. This statement should convince a potential consumer that one particular product or service will add more value or better solve a problem than other similar offerings.” (See Figure 1.1.)

The word *consumer* in the definition is inherently interchangeable with *business* to accommodate both business and consumer purchases. The second sentence in

the definition defines the foundation and the reason consumers or businesses purchase specific goods and services—to add value or solve problems better than other available offerings. If the statement convinces the purchaser that value is added or a problem is solved, then the purchase benefits both buyer and seller and a transaction should naturally occur. Well done, *Investopedia!*

In summary, the value proposition defines what the organization does and its purpose for being—to add value and benefit the purchaser. Unfortunately, articulating a value proposition is a challenge for most of us. You might think that larger organizations articulate their value propositions better than smaller organizations. Not in my experience. As a test, if you want to embarrass the CEO of a large organization, take a tape recorder to random employees and managers in the organization and ask, “What does this organization do?” Play the recorded answers back for the CEO and watch the facial expressions unfold. Fun stuff if the CEO has a sense of humor; otherwise, not so much. In fairness to the CEO, it is challenging to consistently communicate a business value proposition that is easily understood and replicable to all levels of an organization. If the employees don’t know, imagine how the customers of the organization feel at times.

Do you think it is harder or easier for the start-up entrepreneur to answer the question, “What does your organization do?” I find it fascinating that both

CEO and entrepreneur tend to struggle similarly while answering this question. When the value proposition is unclear in a businessperson's mind, this person tends to over-explain it in feature-oriented details and in ways that make it difficult for the listener to understand the value being exchanged or to even pay attention. A lengthy or unclear value proposition reminds me of sports fans who listen to their spouse talk about shopping while the playoff game is on television in the background (I have heard). It is difficult to focus and lay the foundation for a natural business transaction without an effective value proposition.

The value proposition of the business model is the starting point for the business plan. It provides a basic framework to clarify the answer to the question, "What do you do?" Because you want the customer to buy what you are selling, imagine that you are the customer making the buying decision. What do you need to know to decide whether to buy the offering? To build the foundation for the value proposition, we answer some fundamental questions, and then add brevity and clarity to record the value proposition for the first phase of the One-Hour Business Plan foundation.

THE NEED

What is the *need* being filled? What void does your product or service fill that is not currently being satisfied adequately for customers?

Wherever a man turns, he can find someone
who needs him.

—*Albert Schweitzer, German, then French,
theologian, philosopher, and medical missionary;
Nobel Peace Prize 1952*

An entrepreneur is born when an unmet need is identified, a solution is created, successful marketing processes are established, and customers pay for the solution (and the check clears). The customer valuing the solution substantiates the need, the value proposition, and the business model. Veteran entrepreneurs understand that paying customers mean everything to the new venture. They seek quicker and more cost-effective ways to get the value proposition in front of the customer target market for feedback, evaluation, and purchasing decisions.

The caveat for the entrepreneur is to avoid perceiving a need that the customer does not value. You must avoid the “a solution looking for a problem” syndrome. In other words, the entrepreneur believes there is an obvious need, while the customer does not care enough about the problem to value the offered solution. To avoid this syndrome, the existence of a need matching a valuable customer solution must be created, tested, and refined before significant time and resources are deployed to offer it to more target customers. Otherwise you will waste time, energy, and money.

In terms of business planning, establishing the need starts laying the foundation for creating the value

proposition. The entrepreneur can answer some fundamental questions to document the need. What is not happening in the target market today that should be happening? What potential customers have you spoken with about these needs and your solution? What was the feedback? Where is the void in the solutions being offered by competitors and competitive substitutes? (More on competition later.) Ask yourself questions like these to achieve this first cornerstone and begin the foundation for the value proposition.

The need for solutions exists in a variety of forms. There might be better solutions available, not only in the benefits provided by the product or service itself, but also in how the solution is marketed, packaged, priced, serviced, geographically focused, and so on. For example, the world might not have needed a cola beverage, or even another cola beverage, but an improved cola beverage was created. How? Perhaps there was a need for a larger variety of beverage offerings in food service institutions. A consumer was thirsty while away from home and a water fountain was not available; a store or food service establishment was not open. How were these needs identified and established?

Mental Exercise: The Need

Think about how customers in your target industry interact. What events, behaviors, and conditions lead up to the need for your product or service? Ultimately, what need does your product or service fill? Verbalize the need

out loud. Does it sound meaningful for potential customers? Restate the need, this time making it both clearer and more precise.

THE SOLUTION

Business must be the solution, not the problem.

—*Dennis Weaver, American actor
in the television series Gunsmoke*

We American entrepreneurs have a tendency to spend a disproportionate amount of time working on the solution before we fully understand the problem or explain it clearly as a need. The need must be clearly and concisely identified before you start working on the solution; otherwise, you start to solve the wrong problem. Therefore, if you have not clarified the need in the marketplace by now, go back to the prior section and explain the customer need before continuing.

The solution should be the easy part of building the value proposition. The solution is something we create for others and find innovative ways to call the creation our own.

With the need of the customer in mind, our next step is to articulate the importance of the solution to the customer. Be forewarned and mindful that during the solution development process we all have a tendency to follow the path of least resistance.

The solution our target customers want might not be the one that we have the most fun creating, or be the easiest, or the most cost-effective for us to deliver. Our work experiences might unnecessarily limit our creative thinking toward a solution. For example, a software programmer experienced in developing software for mobile phone applications who has identified a need in computer games might not have software development experience in the gaming market to come up with a solution.

Here, the engineer might have a tendency to use the mobile programming solutions for mobile applications he already knows well, which might not be the best programming solutions for the gaming customer. New solutions might be needed in a different programming language for unique gaming hardware. Just be mindful of our human tendency to revert back to what we feel comfortable with and what we know and understand. Our eye should be on the prize—the customer. Better still, we must be looking through the customer's eyes. Stand directly behind your prospective customer and stay there. What do you see?

A quality entrepreneurial solution begins objectively, with the customer's needs in mind. Remember the need section? We are thinking about how our target customers interact and the problems they encounter, which creates opportunities for solutions. What is the solution for the need that solves a fundamental problem for your target customer? Sticking with the cola beverage example, various product needs were filled over time by packaging

the beverage in various sizes of containers as well as for soda fountains. Vending machines were built and dedicated to delivering the beverage even when stores or food service institutions were closed. New solutions evolved.

Mental Exercise: The Solution

Think about your solution now and verbalize it out loud. Repeat it for brevity and clarity in a way that people outside the industry can understand.

FEATURES VERSUS BENEFITS

Features

Normal people . . . believe that if it ain't broke, don't fix it. Engineers believe that if it ain't broke, it doesn't have enough features yet.

—*Scott Adams, American creator
of the Dilbert comic strip*

The features of the offering are important for the customer to understand. They are tangible descriptions of the product or service that can be seen and touched. The business owner and its employees are the most familiar with its features, because they work with those features each day when delivering and servicing the offering. The features describe the offering objectively. Some customers study features in an effort to compare one

offering to another. Therefore, the distinguishing and original attributes of the features are the most important to describe as they enable an offering to stand out in a crowded marketplace.

Examples of features commonly seen in commercial advertising include:

- Larger screen size
- Open 24 hours
- 100 speed-dial settings
- Custom purchase programs
- Bulk packaging

These features are factual statements about the product or service offered. How does the customer respond to these features? Customers are more interested in what the offer does for *them* than they are in what the offering does. As consumers, we often ask ourselves, “What do I get from this?” To highlight what the offering does for the customer, the benefits need to be explained.

Benefits

He who lives only to benefit himself confers on the world a benefit when he dies.

—*Tertullian, Latin Christian author from the Roman province of Africa; best known for advancing the term Trinity*

The benefits of the product or service offering are intangible benefits, which transfer to the customer through the value exchange. Benefits are experiences that the customer values as a result of utilizing the product or service.

What is the difference between a feature and a benefit? A feature is tangible while a benefit is intangible. A feature describes what the service or the product does. A benefit portrays what the customer gets. For example, the features of a cola soft drink include the package design, the taste distinctions, the carbonation level, and physical appearance. The benefits of the cola beverage include a quenched thirst, social acceptance of your beverage choice, a cost savings, convenience of use, and prestige, among others.

Another way to view benefits is to explain them as natural extensions of features that the customer enjoys. For example, the benefits associated with the aforementioned list of features might include:

- A larger screen size on a cellular phone saves me time squinting and slowing down to read text as I must do with smaller screen sizes. I will also be less annoyed trying to view small text.
- A grocery store open 24 hours a day provides convenience for me to shop when my schedule permits or during emergencies.

- Having 100 speed-dial settings on an office telephone allows me to keep in touch with almost everyone I might call, by using one step rather than multiple steps. This saves me time.
- Custom purchase programs save me money by allowing me to purchase only what I need, not more than I want or will use.
- Bulk packaging saves me money by purchasing less packaging and labor without compromising quality.

If you are a customer, are you more interested in a feature or a benefit? Benefits rule! Benefits are what the customer gets. A benefit created by empathetically viewing your prospective customer's needs generates value. Be mindful of our natural tendency to describe features, since it is relatively easier. Therefore, focus on the benefits to create your distinguished value proposition for your customer.

Mental Exercise: Features and Benefits

Think about the tangible features of the product or service and verbalize them out loud. Mentally list the benefits (often intangible) that the customers receive by utilizing your product or service. What is in it for them? What are the most important benefits that your customer receives?

Take advantage of the ambiguity in the world.
Look at something and think what else it
might be.

—Roger von Oech, *American speaker, conference
organizer, author, and toy-maker, whose focus has
been on the study of creativity*

ADVANTAGES

To describe the advantages of a value proposition offering we need to get inside our customers' heads and predict how they will view the purchasing decision after understanding our value proposition. A customer normally has multiple choices to make when purchasing among competitors or competitive substitutes. Competitive substitutes are products or services that can be purchased that might not be close to what you are offering, but are solutions that fill the need or solve the problem in the customer's opinion. Therefore, they are significant and must be considered as we draft the value proposition. We go more into depth with competitors and competitive substitutes when we get to that critical section. Here, we simply need a basic understanding of the competitive dynamic in the marketplace so we can preliminarily predict who might be closest to our value proposition offering.

First let us avoid the second biggest lie in the world and one of the greatest lies in business: "I have no competition." Admittedly, it is possible for a value proposition

to have no competition, but it is a rare instance. Rarer still is a value proposition that has no competitive substitutes. Don't let your acknowledgment of competitive substitutes deter you, but inform you. If you ignore your competition now, you will have to account for competition later during the sales process when a customer informs you who or what they purchased rather than your offering. When developing a quality value proposition, we must, at a high level, account for competition or competitive substitutes.

Before moving on to the mental exercise for the advantages of a value proposition, let's consider an example. Suppose that you own an independent bookstore in the suburbs. A friend recommends a book to one of your potential customers. What are the decisions that your customer will make before purchasing the book? Some background: the customer prefers to own the book because his friend references it in group conversations. He would like to sample the book before buying, and prefers used books. Also, there might be a discussion of the book at a group meeting next week. Four samples of competitive choices where the customer can purchase the book include:

1. An online store such as Amazon.com, with new and used options.
2. A bookstore chain.
3. An independent bookstore.
4. The library.

What are the advantages of each of these four competitive choices for the customer?

1. An online store enables the customer to **order** the book new or used **quickly**, but the customer must wait until next week to receive it or pay for expedited shipping. Used book **prices** might be lowest here.
2. A bookstore chain has a **suburban location, new books**, and a **wide selection**, but might not have the book because it has been out of print for a few years.
3. The independent bookstore is located in an **urban area** close to many work locations and has **spacious reading areas** to browse books before purchasing. A well-read and **knowledgeable staff** has read most of the books in the store. A wide **used book selection** provides the customer the opportunity to sample the condition of the book before purchasing.
4. The library may not have the book, but can acquire it in a few days; however, the book must be returned.

Which of these do you include in your value proposition as an independent bookstore owner? The online bookstore is soulless; removed from the equation are people with whom customers can speak. A knowledgeable, well-read staff sounds like a competitive advantage here.

Bookstore chains do not carry used books for a number of reasons. A used book offering sounds like another competitive advantage. I mention the library as an example of a competitive substitute that must be recognized, because customers often consider competitive substitutes in their purchasing decision. Therefore, they should be accounted for in the independent bookstore's value proposition.

Mental Exercise: The Advantages

Who are the top competitors for your product or service? At a high level, what advantages does your value proposition possess over those competitors?

Think about these advantages objectively, like an industry analyst, without emotional attachment. We include them in the value proposition.

To stay on schedule for The One-Hour Business Plan, you have 10 minutes to write down your value proposition before moving on to the next module. Mental preparation in the form of building the foundation and taking notes does not count against your time. You are on the clock when you start writing the value proposition and then refine it for brevity, clarity, and customer focus. Most of us find it easier to read and think than we do to write. To challenge you and make it a game, the clock starts ticking when you start writing to complete the value proposition worksheet.

Before we get to the value proposition exercise, I want to share a story with you about a value proposition.

In one of my strategic business planning classes, there was a husband-and-wife team who delivered the following approximate value proposition to the class: “Pickled Willy’s offers premium pickled seafood (crab tails, halibut, and cod) from a family recipe through high-end retail stores, distributors, and directly to consumers (via the Internet) from Alaska.” The reaction from the class caught me off guard. This adult class of business professionals began making fun of the value proposition.

Pickled Willy’s was a start-up business at the time. I attempted to teach the group not to judge a business model prematurely and that management team members who write business plans are often more successful than individuals who write them. I got through to some, but most people in the room just could not believe that such a value proposition would be successful. “Who wants pickled seafood?” I overheard. I am contractually precluded from sharing with you how many or which business models were successful from that group of entrepreneurs and business owners. I do have permission to tell you about Pickled Willy’s. Barbara, the wife, set up a second residence in Kodiak, Alaska, without her husband, to start up a seafood processing and distribution facility with her Uncle Willy. That alone takes some pickled balls! She has an Alaskan work ethic that makes the rest of us look lazy. Pickled Willy’s took off. Her list of customers and her distribution reach continue to generate envy from the competitor substitutes in her industry. She calls me once in a while to remind me how well she is crushing the financial objectives I helped her put together (she, like many, despises forecasting metrics) and laughs with competitive

pleasure. I never told her that I sandbagged them for her (more on sandbagging later).

I share this story with you here to help you prepare mentally to write your distinctive value proposition relative to your competition without judgment and as an inspiration to focus. Focus on the customer's needs and on what's missing. Identify the distinctive descriptor(s) of benefits that encompass your vision, make the offering compelling, make the customers want to learn more, and take the next step of a sales transaction. Imagine the key benefit that grabs the attention of the skeptical customers and even generates debate. Look at your customers and offer what they will be curious enough to try!

WRITTEN EXERCISE: WRITE YOUR VALUE PROPOSITION

Write a value proposition based on the solution offered in terms of benefits to your customers relative to primary competition. You have no more than 10 minutes to complete the exercise, so set a timer or alarm and get started.

The value proposition should be delivered verbally in approximately 15 seconds, which is about the attention span of the typical person who asks you, "What do you do?" In written form, it should be between two and four sentences in length. Most writers would agree that it takes longer to write with brevity and clarity than just to write. Your task here is to write briefly and clearly while including the core elements of a quality value proposition: need,

solution, feature, advantage, and benefit. They should not be separate sentences, but should blend together naturally. I suggest getting the first draft out and editing afterward.

VALUE PROPOSITION EXERCISE #1—THE VALUE PROPOSITION BUILDING BLOCKS

In this exercise (Figure 1.2), we bring the five building blocks together with intentionally limited spacing. As you create, write comparatively more about the need and the benefits than the features or solutions.

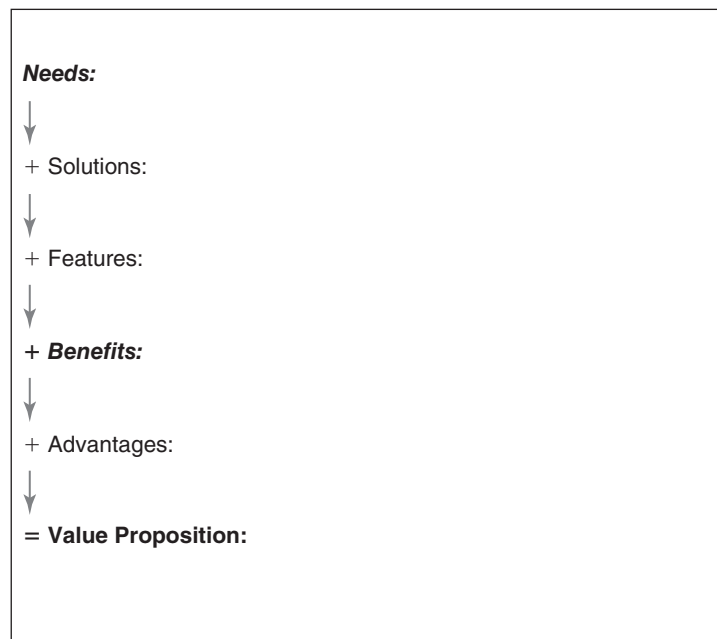


Figure 1.2 The Value Proposition Building Blocks

Self-Quality Control Check for Module 1: The Value Proposition

- Does your value proposition mention the need for the offering?
- Does the solution focus on benefits for the customer? Are the benefits natural extensions of the features?
- Are the advantages to primary competitors expressed distinctively?
- Is the value proposition brief, clear, and understandable to someone outside the industry?
- Is this value proposition deliverable in 15 seconds during the course of normal business conversation?

We have to get your value proposition as clear, distinctive, beneficial, and intriguing as we can before we move on. Again, if the value proposition fails to express the benefits of what the recipient gets, then the rest of our business plan and business model will suffer greatly. We are not ready to move on yet. Value Proposition Worksheet #1 summarizes what professors teach us in marketing classes in business schools. It might not work for you in your industry in the sound-bite society we live in today. The blunt truth is that businesspeople rarely give a damn about your features or how you do what you do. Sometimes they don't even care about what you do. What most businesspeople want to know is what is in it

for them! What do they get? Value Proposition Exercise #2 is designed to be your default value proposition to communicate to your listener exactly what your customer gets and experiences by working with you.

VALUE PROPOSITION EXERCISE #2—“WHAT DO YOU DO?”

This can be your value proposition when you are tired after a long day and must deliver it quickly. In this exercise, we simply focus on the need and how the customer benefits from the offering. See Figure 1.3.



Someone asks you, “What do you do?” You might want to answer that question in two sentences. Therefore, complete these two statements by filling in the blanks: We work with people who need _____. This benefits them by _____.



Figure 1.3 What Do You Do?

Five Tips for Quality Control

1. Are you delivering it verbally in 15 to 30 seconds?
2. Do you have any “and” clauses? If so, you are probably rambling on and your listener is starting



to glaze over you. Force yourself to remove these clauses.

3. Are you communicating from your customer's perspective and not yours?
4. Have you committed your value proposition to memory so you don't have to read it? That's how it works in the real world.
5. Deliver this verbally to multiple people and ask for feedback.

Field-test results reveal that some of you will still be stuck after completing the first two value proposition exercises. You might not even know it. Some of us flat out struggle to find empathy with our customers. If your value proposition merely states what you do and how you do it, then I need you to work on your why. Why do you do what you do?

One of the most successful authors of all time is Jack Canfield, author of the *Chicken Soup for the Soul* series of books. *Chicken Soup for the Soul* books help us to heal ourselves when we need it. The value proposition is actually in the title. How many books do you think that Jack Canfield sold with his co-author Mark Victor Hansen? 50,000? 500,000? 5 million? The answer is more than 500 million books. Jack and Mark achieved this level of success for a number of reasons, but one of them is because the value proposition was communicated to the reader in the title of the book—to a wide, addressable customer target market.

Jack is in a different place now. His company, Strategies for Success, at www.jackcanfield.com, provides tools, tips, and resources to find your why, articulate your vision, and take action toward your definition of success. At first, it might sound like enthusiasm without substance, which is in vain. It is not. Some of us simply are stuck and need to loosen up, lighten up, and look upward. The exercises come in handy, particularly when we are stuck.

For example, I had the privilege of meeting Jack Canfield at a writer's conference. Prior to our brief meeting he taught us writers a breakout group exercise called "What do you want?" Here we broke into pairs of two, one questioner and one responder. The questioner asks, "What do you want?" repeatedly. The responders are free to answer that question any way they desire. We all have different wants for ourselves, our family, our business, our career, or simply in the moment. The key for the responder is to answer each question honestly about whatever thought comes to mind.

VALUE PROPOSITION EXERCISE #3—"WHAT DO YOU WANT?"

The purpose of this exercise is to find your purpose by repeatedly answering variations of the question with openness, tolerance, acceptance, passion, and a sense of humor.

See Figure 1.4 for the "What do you want?" exercise.

The questioner asks you, "What do you want?" repeatedly. Perhaps (but it is not required) the Questioner adjusts the question a bit by asking, "Why do you want that?" or "What do you want to accomplish with that?"

Answer the question: "What do you want?" repeatedly and as many times as you can in five minutes!

What do you want?

What do you want?

What do you want for you?

What do you want for your family?

What do you want for your business?

Figure 1.4 What Do You Want?

