PART 2:
VALUE PROPOSITIONS
Understanding your value

Now that you know who you're targeting, you need to refine WHAT your unique value proposition for your go to market strategy. Your value proposition isn't an ad or a piece of marketing collateral. It's an internal tool to help the entire go to market team understand what you bring to the table for your target audience. Collectively, your segmentation, value proposition, and messaging (which we'll address in the next section) form the foundational core your entire go to market approach.

In this chapter, we're going to:

- Define the key components that make up a value proposition
- Explain how to calculate the dollar value of your product
- Explore what to do if your value isn't attributable to a dollar figure

By the end of this chapter, you'll understand what a value proposition is, where it fits in your go to market strategy, and how to find one for your own product.

The value proposition

A ***value proposition*** is a fundamental component of your marketing strategy. It is all the benefits you are offering—all the ways you create value—documented and outlined in a single place. It's an internal tool that will help focus your marketing on the value you bring to solve specific pains for your specific audience.

A good value proposition should be made up of three different components: *competitive advantage*, *positioning*, and *USP*. However, marketers often use these terms interchangeably when in fact they mean very different things. So we're going to dive into what each one is, and how it relates to your value proposition.

Of course, it's entirely possible to go to market without all three components. However, the strongest go to market strategy will be delivered by organizations who have multiple components in place.

For example, if you have no competitive advantage over your next-best alternative, but you have great positioning, you can successfully capture significant market share. However, you're going to be relatively easy to displace down the road.

That's why we recommend when you're building your go to market strategy and your value proposition you try and anchor it to as many components as possible This might mean you develop additional product features, target audiences, or pricing and packaging configurations to check every value proposition box.

Competitive advantage

Competitive advantage is an economic term that means a condition or circumstance that puts a specific company is a superior business position.

There are four common types of competitive advantages:

1. *Economies of scale*: a company can produce more of their product at a lower cost because they're producing a lot of it, which makes it difficult for others to compete due to the low cost a specific company can offer. Mass producing suits vs bespoke suits are an example of this, where the mass-produced suit can offer a much better price, and capture more of the market because of it, due to the fact they're making lots of suits at once (and thus paying less to make each one).

2. *Customer captivity:* the cost and resources of switching to a competitor are very high, so it's hard for customers to switch. B2B subscription software (SaaS) often rely on this, since switching to another SaaS provider will likely require implementation, data, process, and people change—all of which are costly to the business and politically taxing internally for the people involved.

3. *Enforced competitive advantages*: Government licenses can prevent competitors from entering a market and offer a competitive advantage to those who hold the licenses. Telecommunications, infrastructure, transit, and energy companies are often an example of this.

4. *Technology advantage*: When a company has developed a truly innovative product that is both patent protected and expensive / impossible to replicate. Pharmaceutical companies are a good example of this sort of competitive advantage when they develop a new drug that can do what no one else can do.

A word of warning about technology advantage

It’s easy to fall back on *technology advantage* as your competitive advantage, especially for tech companies. The reality, however, is that most technology companies do not, in fact, have a technology advantage. Yes, they solve a problem in a unique way, but generally speaking, it’s not sufficiently different from the next-best alternative to be a true moat.

There are exceptions, of course. For instance, for legacy solutions, moving to the cloud is incredibly resource-intensive, if it’s possible at all. So cloud-first products have a significant moat. Another example is data. Gong.io, for example, is a sales engagement and call recording solution for sales teams. Their technology records calls so sales reps and managers can listen back on the call and coach sellers to improve.

However, that technology is very easy to replicate. So Gong.io created a competitive advantage with data and machine learning. They analyze all the calls of their customers, creating a huge database of sales calls, and then used machine learning on those calls to build a world-class recommendation engine.

Their technology advantage isn’t their product’s technology, but rather, an advantage in data and machine learning — both of which are very difficult to replicate quickly.

Unique Selling Proposition (USP)

Your unique selling proposition is the single reason that sets you apart from both the competition in your category and from the next-best alternative. It should be a combination of a critical feature set, the benefit that the customer gets, and how that relates to the pain you solve for.

Of course, this is often very similar to your positioning as we'll see in a second. They difference is that your USP is highly specific. It's a single feature / feature set that sets you apart from everyone else.

For example, if you were selling a gaming system, one unique value proposition might be exclusive rights to a specific game that is only available on your system.

By honing in on a hyper-specific feature set / benefit, you make it very clear to your potential customers why they would buy you over someone else. It's a single thing you can point to and say:

This is how we're different from everyone else!

Defensible USP

One challenge that startups in particular have is finding a defensible USP. What we mean is that your USP must be inarguably unique to you, ideally backed by data and social / third party proof.

For example, a lot of companies want to make customer service their USP, because they're great at it, and their customers love it. But is that defensible? No. Unless you've won an award, or been recognized by analysts like Forrester or Gartner, or you'be the highest-ranked company on something like G2, it's not something you can concretely say "we are the best." Plus, you'll have to look long and hard before you find a company who says "we have terrible customer service."

Rather, your USP should ideally be something your competitors say "no, we don't don't do / have that."

Otherwise, it's extremely easy to counter in a head to head and it makes it hard for the customer to understand why they should buy you instead of someone else.

Positioning

Finally, positioning. ***Positioning*** is the choice about which aspect of your product you're going to focus on to add the most value to your target audience. In other words, positioning is about staking a claim to say:

This is who we are and how we help. If you don't want this, then our product is not for you.

Of course, this is incredibly scary. You're actively saying "our product is not for this type of customer," and we address this in more detail in the next section on messaging.

For now, though, there are a few things about positioning that are worth calling out now:

1. **Positioning is critical**. You need to actively select what makes you unique.
2. **Positioning often feels like it should be obvious, but it rarely is**. Remember: what gets you excited is probably not the same thing that gets your customers excited.
3. **Positioning is as much about saying what you're not as what you are**. It's tempting to be something for everyone, but that rarely works.
4. **Every product is positioned**. Either it's done by you telling the world

what you are and what you do, or its done by the market, telling you who you are and what you do.

Once you’ve identified these three core components, you can start to move on to the last step of outlining a value proposition: actually calculating the value to customers of your solution.

Value: how customers benefit

Value is the dollar amount that customers get back when they buy your product. A simple example might be your product costs $100, and it saves your customer $500. Your value is $400.

Value is usually very dry and mathematical, and is *something that you actually calculate.*[1]

For example, saving people thousands of dollars on lubricant costs per month, or reducing their order processing time by 1 minute.

Even if your product doesn't actually save your customers money it may still save them *theoretical* money—that is, the money that they would otherwise have to spend if they didn't adopt your solution.

Calculating product value

Calculating value can be complex, but the theory is simple.

First, identify the cost of doing nothing — continuing to live with the pain.

Then, calculate the cost + benefit of solving the problem in a different way. This might be a competitor.

Finally, look at your own product. What's the cost of your product, and what sort of return can your customers expect to get?

Let's say your product is an energy efficient lightbulb for factories. Compared to a regular light bulb (e.g. the cost of doing nothing), it might save your customer $10,000 per year in expenses. Your customer is also looking at other energy-efficient lightbulb providers (your competitors).

Maybe your best competitor can save them $8,000 per year in expenses. If that's the case, your value is $2,000 over and above the next-best alternative.

This table lays all of the cost savings out:

Cost savings	You	Competition	Difference
Electricity	$10,000	$8,000	$2,000
Labor	$5,000	$6,000	-$1,000
Oil	$1,000	$1,000	$0
TOTAL	$16,000	$15,000	$1,000

So, you are able to significantly lower their electricity costs, their labor costs, and their oil costs, compared to a regular lightbulb. Compared to doing nothing, the value you add is $16,000. Since you do have some competition, the value you offer compared to your next-best alternative is $1,000.

When it comes to value propositions, you need to look at your value compared to the next-best alternative, since that's how the customer is going to look at it. Your goal is to say "we offer $XXXX of additional value compared to the next best solution to your problem."

Let's look at another example. This is an actual value proposition I worked on for a software product. As the table shows, that value came from three main sources: savings through inventory, savings through automation, and savings through returns.

Savings from reduced inventory	$375,000

Savings from automation	$59,904
Savings from fewer returns	$1,350,000
Product price	$22,360

As you can see, the most significant savings was through returns. In fact, it was so much larger than the other two that it really helped us focus our USP and positioning on the problem that we solved really, really well. Since we contributed so much value through reducing returns, that became our core position in the market.

In these two examples, the value comes directly from cost savings.

But remember, there are a few different ways that a company can offer value—cost saving is by no means the only one.

For example, your value proposition might include *incremental profits* rather than just reduced costs. An incremental profit is the value that a customer gains when a product adds to their revenue. (We use the term ‘incremental’ here because for every dollar your product adds to revenue, it only adds a fraction to profits—so the value here is the incremental profit added).

Why bother calculating value?

Many marketers rely on messaging to drive value, focusing on what customers want to hear rather than focusing on where the product adds value.

But as the examples above illustrate, a bit of math can help you to quantify the value that your product creates in your target market. And once you’ve done that, you’ll have an easier time pitching to your target audience.

Let’s say you’re selling software that automates when lights turn on and off in big commercial buildings. How do you sell this to prospects? “Automate your lighting!” “Save time with automatic lights!” “The best lighting software!”

There are many different approaches you could take with these headlines. And chances are that most would miss the mark. That’s because you haven’t actually identified the value that you are creating.

You need to break it down.

How does your software actually help the business? How does it affect the profit equation: Profit = (Price - Cost) * Quantity?

There are a few possibilities for how your software might drive value:

- Because the lights are automatic, that might mean that customers don’t need to hire staff to go around turning lights on and off. That could cut costs.
- The lighting might foster a special mood in the building, or a more pleasant customer experience. This could help boost revenues.
- The lights might spend more time turned off, reducing energy costs.

When marketers do positioning, they often guess at which benefit is most important and build campaigns around that. But a more sophisticated approach is to actually calculate how much value is created from each possible benefit, and run the one that offers the most value.

So, of the three benefits, let’s say that lower energy cost is the one with the most value. Sure, the savings for an individual building might be marginal, but when these costs are scaled across 10 or more buildings, the energy savings are substantial. Now we’re honing in on the main benefit of the value proposition: lowering the customer's energy costs. Along the way, we've better defined the target customer: companies with 10 or more large stores or buildings. These prospects have substantial energy costs, so cutting expenses becomes more important.

With this information, a company can put the most valuable benefit — in this case, lower electric bills — at the heart of its positioning, making a much stronger case for customers as it goes to market.

What to do if you can’t calculate value

Math is undoubtedly your friend when it comes to value propositions. But there are a raft of products that provide significant value that can’t be calculated easily. Either the value isn’t monetary at all, or the value is intangible—it’s not something you can easily attach a dollar figure to. This is particularly common for B2C companies.

For example, imagine you were marketing Coca-Cola. Technically, for the customer the dollar value is the calories and enjoyment they’re getting at a low price. But of course, that’s not how Coca-Cola markets itself. Instead, the value it provides its customers is *cool*. It creates and markets an image of what a Coke-drinker is, then sells the drink as the path to achieving the image they’ve created.

So, if a dollar value is not a part of your value proposition, you need to focus on compelling use-cases for your target audience. What is the number 1 most important value that your product brings to the table? And why do they specifically want to access that value that your product brings?

Let’s go back to our Coca-Cola example. If the value they provide is a cool image, then they might tailor that value to specific audiences. For example, if they were targeting grandparents, they might focus on how Coca-Cola can help them connect with their grandkids, because it’s a cool drink. Conversely, if Coca-Cola was targeting teens, they might focus on how Coke can make you popular at school, since that’s probably what cool means to teenagers.

Your value proposition does not need to be unique

Here’s a final note on value propositions: *they don’t always need to be unique*.

Marketers spend a lot of time trying to figure out their USP. And this is certainly a worthwhile exercise—but you don’t always need to emphasize how unique your product is.

For example, you might be selling something that is a non-strategic purchase, such as plastic screws. Your buyer probably doesn’t care what makes your product unique—they just want something reliable at a reasonable price. In this case, emphasizing uniqueness is a waste of time.

Or, let’s say you’re operating in a brand new, innovative market. Your customers might have zero knowledge of your competitors. In a case like this, there’s no point in emphasizing how you’re different from your competitors. Instead, just focus on communicating how you create value.

Chapter summary questions

- Does your product create enough value for the customer to be worth buying?
- Have you identified your competitive advantage, positioning, and unique selling proposition?
- Have you calculated the value you add to your customer, and linked it to a specific benefit / feature?
- Have you tied your value calculation to your USP, positioning, and competitive advantage to build a complete and robust value proposition?
- Can the value you create be measured in dollars and cents, or are you bringing a more nebulous concept of value to your customers?
- Have you identified the part of your product that brings the most value?