

28.5: Value Proposition

Learning Objectives

- Identify and describe an organization's value proposition

What Is Value?

Marketing exists to help organizations understand, reach, and deliver value to their customers. In its simplest form, **value** is the measure of the benefit gained from a product or service relative to the full cost of the item. In the process of the marketing exchange, value must be created.

Value = benefit – cost

Let's look at a simple example: If you and I decide to give each other a \$5 bill at the same moment, is value created? I hand my \$5 bill to you, and you hand yours to me. It is hard to say that either of us receives a benefit greater than the \$5 bill we just received. There is no value in the exchange.

Now, imagine that you are passing by a machine that dispenses bus tickets. The machine is malfunctioning and will only accept \$1 bills. The bus is about to arrive and a man in front of the machine asks if you would be willing to give him four \$1 bills in exchange for a \$5 bill. You could, of course, decide to make change for him (and give him five \$1 bills), making this an "even exchange." But let's say you agree to his proposal of exchanging four \$1 bills for a \$5. In that moment a \$1 bill is worth \$1.25 to him. How does that make sense in the value equation? From his perspective, the ability to use the bus ticket dispenser *in that moment* adds value in the transaction.

Value is not simply a question of the financial costs and financial benefits. It includes perceptions of benefit that are different for every person. The marketer has to understand what is of greatest value to the target customer, and then use that information to develop a total offering that *creates value*.

Value Is More Than Price

You will notice that we did not express value as value = benefit – price. Price plays an important role in defining value, but it's not the only consideration. Let's look at a few typical examples:

- Two products have exactly the same ingredients, but a customer selects the higher-priced product because of the name brand

For the marketer, this means that the brand is *adding value* in the transaction.

- A customer shopping online selects a product but abandons the order before paying because there are too many steps in the purchase process

The inconvenience of filling in many forms, or concerns about providing personal information, can *add cost* (which will subtract from the value the customer perceives).

- An individual who is interested in a political cause commits to attending a meeting, but cancels when he realizes that he doesn't know anyone attending and that the meeting is on the other side of town.

For this person, the benefit of attending and participating is lower because of costs related to personal connection and convenience.

As you saw in these examples, the process of determining the value of an offering and then aligning it with the wants and needs of a target customer is challenging. As you continue through this section, think about what *you* value and how that impacts the buying decisions you make every day.

Value in a Competitive Marketplace

As if understanding individual perceptions of value weren't difficult enough, the presence of competitors further complicates perceptions of value. Customers instinctively make choices between competitive offerings based on *perceived value*.



Imagine that you are traveling to Seattle, Washington, with a group of six friends for a school event. You have the option to stay at a Marriott Courtyard Hotel that is located next to the event venue for \$95 per night. If you pay the “additional person fee,” you could share the room with one friend for a cost of \$50 per night. However, one of your friends finds an AirBnB listing for an entire apartment that sleeps six people. Cost: \$280 per night. That takes the price down to \$40 per night, but the apartment is five miles away from the venue and, since there are seven of you, you would likely be sleeping on a couch or fighting for a bed. It has a more personal feel and a kitchen, but you will really be staying in someone else’s place with your friends. It’s an interesting dilemma. Regardless of which option you would really choose, consider the differences in the value of each and how the presence of both options generates unavoidable comparisons: the introduction of the AirBnb alternative has the effect of highlighting new shortcomings and benefits of the Marriott Courtyard hotel room.

Competition, Substitutes and Differentiation

Alternatives generally fall into two categories: competitors and substitutes. A **competitor** is providing the same offering but is accentuating different features and benefits. If, say, you are evaluating a Marriott Courtyard hotel room vs. a Hilton Hampton Inn hotel room, then you are looking at *competitive offerings*. Both offerings are hotel rooms provided by different companies. The service includes different features, and the price and location vary, the sum of which creates different perceptions of value for customers.

AirBnb is a service that allows individuals to rent out their homes, apartments, or a single room. AirBnb does not offer hotel rooms; it offers an alternative to, or substitute for, a hotel room. **Substitute offerings** are viewed by the user as alternatives. The substitution is not a perfect replication of the offering, which means that it will provide different value to customers.

Competitors and substitutes force the marketer to identify the aspects of the offering that provide unique value vis-à-vis the alternatives. We refer to this as differentiation. **Differentiation** is simply the process of identifying and optimizing the elements of an offering that provide unique value to customers. Sometimes organizations refer to this process as competitive differentiation, since it is very focused on optimizing value in the context of the competitive landscape.

Finally, organizations seek to create an advantage in the marketplace whereby an organization’s offerings provide greater value because of a unique strategy, asset, or approach that the firm uses that other cannot easily copy. This is a **competitive advantage**. The American Marketing Association defines competitive advantage as “as total offer, vis-à-vis relevant competition, that is more attractive to customers. It exists when the competencies of a firm permit the firm to outperform its competitors.” When a company can create greater value for customers than its competitors, it has a competitive advantage.

What Is a Value Proposition?

We have discussed the complexity of understanding customer perceptions of value. As the company seeks to understand and optimize the value of its offering, it also must communicate the core elements of value to potential customers. Marketers do this through a **value proposition**, defined as follows:

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.^[1]



It is difficult to create an effective value proposition because it requires the marketer to distill many different elements of value and differentiation into one simple statement that can be easily read and understood. Despite the challenge, it is very important to create an effective value proposition. The value proposition focuses marketing efforts on the unique benefit to customers. This helps focus the offering on the customer and, more specifically, on the unique value to the customer. Also, the value proposition is a message, and the audience is the target customer. You want your value proposition to communicate, very succinctly, the promise of unique value in your offering.

A value proposition needs to very simply answer the question: Why should someone buy what you are offering? If you look closely at this question it contains three components:

- **Who?** The value proposition does not name the target buyer, but it must show clear value to the target buyer.
- **What?** The offering needs to be defined in the context of that buyer.
- **Why?** It must show that the offering is uniquely valuable to the buyer.

How Do You Create an Effective Value Proposition?

When creating or evaluating a value proposition, it is helpful to step away from the long lists of features and benefits and deep competitive analysis. Stick to the simple, and strive for focus and clarity. A value proposition should be clear, compelling, and differentiating.

- **Clear:** short and direct; immediately identifies both the offering and the value or benefit.
- **Compelling:** conveys the benefit in a way that motivates the buyer to act.
- **Differentiating:** sets the offering apart or differentiates it from other offerings.

Here are some examples of value propositions from company websites:

- “Soundtrack your life” (Spotify)
- “Small Business Accounting Software Designed for You, the Non-Accountant” (FreshBooks)
- “Remember Everything” (Evernote)
- “That Horizon Might Be Closer Than You Think” (Mint)
- “Rides in Minutes” (Lyft)
- “Shorten. Share. Measure.” (Bitly)

? Practice Question

<https://assessments.lumenlearning.co...essments/14477>

1. Kenton, Will. "Value Proposition." Investopedia. March 12, 2019. Accessed April 12, 2019.
<http://www.investopedia.com/terms/v/valueproposition.asp>. ↵

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