

## Link Your Value Proposition to the Customer Value Chain

By Janet Gregory

Understanding the customer value chain is the single most important consideration for the success of a product, service offering or business. The value proposition for your offering is defined by the customer value chain that delivers it to the market. Linking the value proposition and value chain will help you recognize, leverage and capitalize on opportunities for success as well as identify, minimize and (hopefully) eliminate issues, risks and liabilities. Unfortunately, the entire customer value chain seldom gets much, if any, attention in most businesses. Let's consider the parts: Customer, Value and Chain.

### Customer

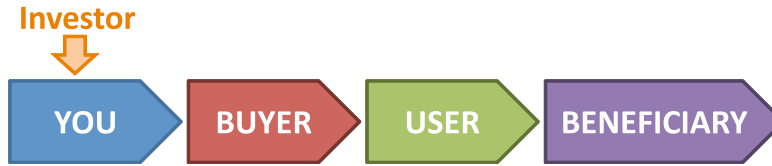
The idea of "customer" seems very simple at first but the definition is often complex with many facets. Initially customer is defined as *buyer* where there is an exchange of money for products or services rendered. A buyer is the direct source of company revenue. Customer can also be defined as *user* where the products or services are consumed, operated, put to use and perform. The examples are many, from simple to complex. For school supplies the *buyer* is the parent and the *user* is the student. For business telephone systems, the *buyer* is the IT (Information Technology) organization and the *user* is the company employee, department organizations and lines of business.

The needs of both buyer and user must be identified and satisfied for a product or service to be successful. The buyer and user elements of the value chain are important to every functional area of a business to ensure that customers receive the expected value, from packaging, to the acquisition experience, to user experience.

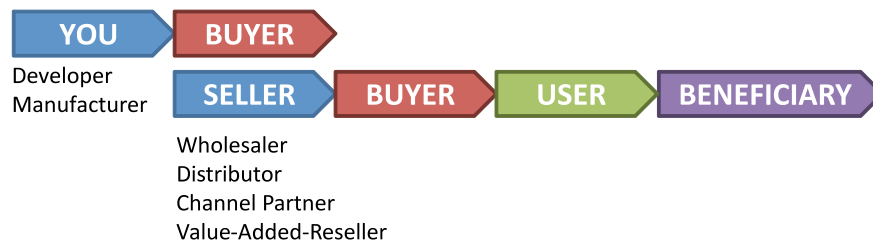


In many businesses the customer value chain will reach beyond buyer and user to include *beneficiary*. The beneficiary receives indirect value or value that is adjacent to the customer value chain. In our school supply example the beneficiary is the classroom teacher who benefits from an appropriately prepared student and a community that is raising the educational standards. In the business telephone system example, the beneficiary is the community where the company resides, providing jobs and paying taxes, as well as the customers-of-their-customers that provide improved services and new capabilities.

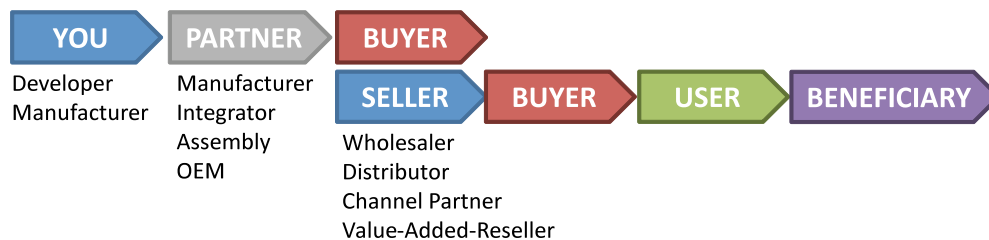
Another type of beneficiary is the *investor*. The investor sits outside of the customer value chain but is important to the consideration of value as they are a key stakeholder in the business. Investors can be shareholders in public or private companies or funders, such as venture capital investors or financial institutions. Investors are looking for a return on investment (ROI) where success in the customer value chain yields growth in revenue and profits. The beneficiaries in the customer value chain are important to the long term growth, support and community participation (of both local & investment community).



Business is rarely this simple. Most businesses have a multi-layered “customer” value chain. One of the multiple layers may involve the businesses necessary to reach the ultimate buyer. In a retail business this may require wholesalers, distributors and retailers, like our school supply example. In many high tech businesses the delivery element of the customer value chain will require channel partners and VARs (value-added-resellers) to reach the customer, like our business telephone system example. The multiple layers of customer delivery in the customer value chain are particularly important to packaging and pricing decisions. Packaging is important to ensure consistent delivery – physical products want to retain factory quality and intangible offerings, such as services, want to retain consistency and integrity. Pricing is important so that each participant in the delivery aspect of the value chain achieves their revenue and profit goals while still maintaining a fair price for the ultimate buyer.



In today’s world of increased specialization, few businesses are vertically integrated where they provide every element in the customer value chain. Many years ago there were numerous examples where organizations like IBM, the Bell System, Xerox and others did everything from research & development to manufacturing to sales and service delivery. The vertically integrated organization is rare today and has been replaced by partnerships and outsourcing. The specialized world of today helps to grow business, keeps new ideas flowing, increases competition and enriches products/services. Your customer value chain may also include a manufacturer, assembler or integrator that combines your specialized offering with others to create a product. Intel is a powerhouse in the semiconductor industry and laptop manufacturers are one of the key integrators in their customer value chain.



The definition of “customer” at first seems so obvious. But, it is a very complex area that must be evaluated and well understood to maximize success of a product, service or company. Each stakeholder in the customer value chain will have a slightly different value proposition that resonates for them. A successful business will carefully look at all elements of the customer value chain to ensure that the products and services satisfy each stakeholder.

## Value

Value is defined by the “customer.” Each “customer” in the value chain will have a slightly different definition of value, based on what is most important to them. You will need to develop multiple value proposition statements that are communicated separately in proposals, presentations, collateral or advertising specific to each audience. Your customers are often interested in the value proposition for “downstream” customers, as they are also defining the value chain. You help simplify the buying process for them by evaluating the value chain and offering insight into the downstream value.

Value proposition is not one-size-fits-all. You cannot communicate your value proposition in a single statement. You have multiple “customers” and each one will have a slightly different value proposition based on what is important to them. Value is individual, intimate and personal; it is **not** what is important to *you* or to your *other* customers. In our school supply example the value proposition for the distributor may be about packaging, margin and logistics. As you look downstream the value propositions change slightly; for the retail outlet it may be product turnover, for the buying-parent quality-for-price and for the student-user, style. The better you understand and articulate each value proposition in the customer value chain, the shorter the sales cycle time.

While the definition of “customer” looks forward from the vantage point of your business ahead toward integrator, buyer, user and beneficiary, value looks backward to what merit has been received by the stakeholder. Picture the value chain as a sidewalk, and walk down the value chain, looking back at the path traversed. Value proposition is based on the perspective of the stakeholder, through all the various layers and partners along the way. In our business telephone system example, the user wants ease-of-use and improved services from IT. The value perspective of the IT buyer is for quality hardware/software and responsive services from the VAR (value-added-reseller). The VAR wants a long MTBF (mean-time-between-failure) and competitive pricing. Each value proposition is unique to that stakeholder and point of delivery in the value chain. Value propositions cascade down the value chain; they are often similar but never the same.



Value proposition is not a tag line. Tag lines are typically short memorable statements that convey value to the user or buyer. There are thousands of great tag lines - “Just do it” - “Mmm Mmm Good” - “Bring good things to life.” Thanks to the amazing creativity of our marketing departments, tag lines provide identity, are memorable and elicit an emotion for the user and/or the buyer. But tag lines are not the value proposition.

Value proposition must be measurable. Value goes beyond the tag line to the importance, significance and benefit delivered. Today’s world is all about results. “What have you done for me lately” is heard in businesses around the world. Merits and value must be quantified. Value that is measured, calculated, counted and projected over time is what customers want to understand. Yes, intrinsic value is important but ... be honest, we live in a world based on results. Benefit-per-cost is how Carlson & Wilmut quantify value in their book “Innovation: The Five Disciplines for Creating What Customers Want.” The value

chain also expects continued improvement in measureable results. Just look at the auto industry over the last 10 years where the value chain demands higher MPG and lower CO2 emissions.

## **Chain**

The customer value chain is directly linked to your product, service and company success. Your company reputation, brand and image are connected to the care provided to each link in the customer value chain. A chain will remain strong over time if properly cared for. The customer value chain's strength is provided by value propositions that are unique and individualized to each link in the chain with quantifiable benefits that improve over time. One neglected link will break the entire chain.

Understanding the customer value chain is complex. Most companies think that the concept of "customer" is well understood, but key stakeholders are often left out or expected to ride along on the value propositions further down the value chain. Some great opportunities for business growth and expansion may be missed if stakeholders in the customer value chain are not addressed. Or worse, these unaddressed stakeholders can drop out or sabotage your customer value chain by turning to competitors who are taking the time to address their value needs.

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