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Business Model Generation

Value Proposition Design is a very different book about business. An accessible, practical handbook that delivers exactly what the cover promises: "How to create products and services customers want".

Value Proposition Design
## How to create products and services customers want

By Alex Osterwalder, Yves Pigneur, Greg Bernarda, Alan Smith & Trish Papadakos
(Published by John Wiley & Sons, New Jersey. ISBN: 978-1118968055)

Reviewed by Jan Kyhnau (the practitioner) and Christian Nielsen (the professor) for the Journal of Business Models.

THE PRELUDE

Leading on from the bestselling 2010 book *Business Model Generation* (BMG), Alexander Osterwalder and Yves Pigneur, this time flanked by Greg Bernarda, Alan Smith and Trish Papadakos, set out to further the intricate link between business models and value propositions in the 2014 publication *Value Proposition Design* (VPD). We have been looking forward to this contribution, not just because of the impact the 2010 book made on businesses, business models and business development, but also because the notions of understanding what really lies in the concept of the value proposition in fact is rather hard for many companies, students and academics to comprehend.

Value Proposition Design addresses the relationship between customer segments and value propositions in the so-called Value Proposition Canvas (VPC), which could be described as the pivotal element of the Business Model Canvas (BMC). The book focuses on two of the building blocks from the BMC, namely "Customer Segments" and "Value Propositions" and gives a simple and accessible way of researching whether the value propositions of a company's business model correlates with the actual needs of the customers it wishes to serve. Not only are the methods easy to work with, they are in addition a fun and inspiring way of working with strategy and business development.
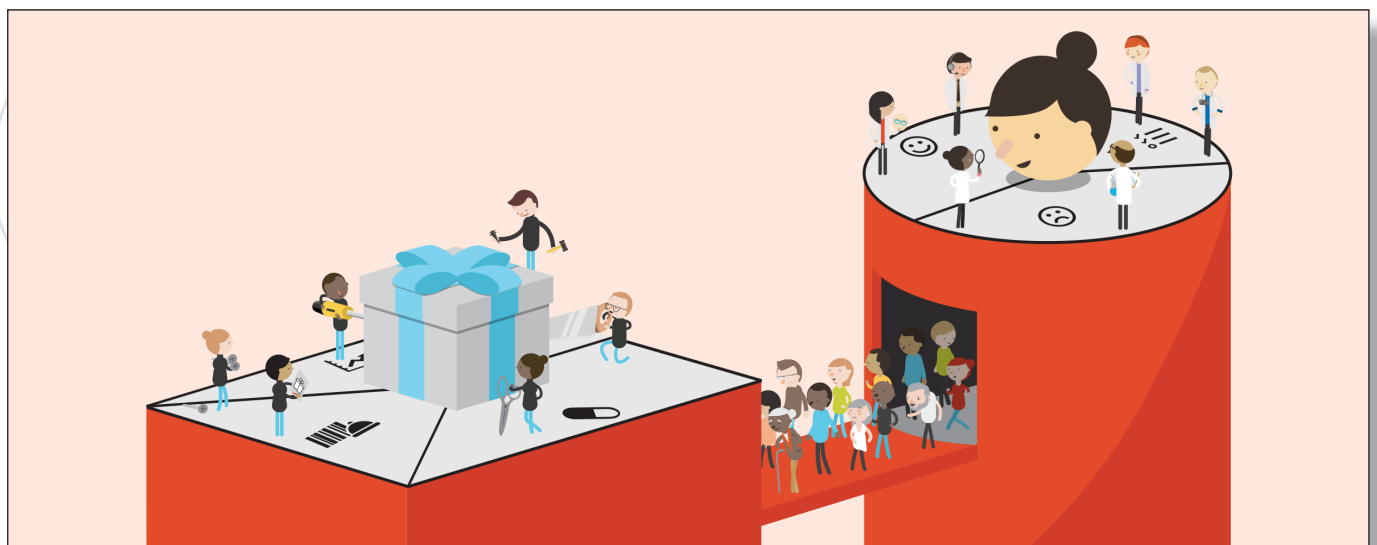
Value Proposition Design uses the simplicity and effective means of inspiring and instructive drawings to clarify what it's talking about – and more importantly, what it means.

Through our work with organizations of varying size and industrial affiliation and collaborating with students, we have encountered countless instances where value propositions are mistaken for product features. In our use of the Value Proposition Canvas during the last two years where it has flourished on the Internet, we have come to appreciate its ability to convey this understanding to even stubborn CEO's, owners and financial managers.

Let us be frank: If you are looking for an academic dissertation about business models and the meaning of value propositions, *Value Proposition Design* is not the book for you.

However, if you are looking for a no-nonsense "how-to-do" book that helps you identify and understand customer segments as well as offering you the tools to design razor-sharp value propositions, which ensure the success of your chosen business model, look no further. *Value Proposition Design* is a brilliant cookbook, which, as the flip side of the cover states, helps you avoid wasting your time building stuff nobody wants. *Value Proposition Design* is written as an accessible, practical handbook that delivers exactly what it promises at its outset: "How to create products and services customers want".

Whereas the *Business Model Canvas* focused on how to create value for businesses, the *Value Proposition Canvas* focuses on how to create value to customers. Using the *Value Proposition Canvas* is not going to be a brand new experience for those who have worked with the *Business Model Canvas* before. That said, there is a quick introduction to the Business Model Canvas, meaning that brand new readers who have not read the BMG book can follow and understand the premise of the VPC and its context.

The scope and focus between the two tools are, however, quite different. In this new book, the focus is much more in-depth into the way organizations function and create value, and the book provides the reader with a whole array of practical tools and examples on how to create for example *Customer Profiles*, *Value Maps* and how to work with prototyping and testing.

The field of business models has developed dramatically over the last five years both in academia and in business and therefore we intend to review this book from both perspectives, namely from the practitioner perspective and the professor perspective.

On the book as a whole, the practitioner says:

As a practitioner, I have nothing but praise in regards to the new ways the book works with development, innovation and testing of business models, as well as the online tools provided with the book. These are hands-on methods and tools, which enable the user to understand customers, design the value propositions, and create correlation between customer segments and the corresponding value propositions.

It should be mentioned that I have known about the content of VPD and the online companion for some time, as I was part of the pre-reader team of the book, which consists of roughly 60 practitioners from all over the world. I have also been part of the test team who tested the "online companion" tool.

In the last few months, I have had the opportunity to use the book and the tools on a series of strategy and business development cases as well as for facilitating business model and value proposition design processes. From my experiences I have to say that the authors have done a great job in terms of enabling business development teams to effectively develop and test prototypes of value propositions and in extension, business models.

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Together with many elaborate, instructive and exemplified tools for prototyping possibilities and gaining customer insights, the book has a good flow. It is my experience that users easily understand the models presented as well as being able to follow the detailed descriptions that come with the tools.

The "online companion" is an online portal, which comes with the book. It offers tools, templates and posters, and even tests and exercises all of which correlates to the books curriculum. It is a refreshing way of handling external material and it expands both the experience and the learning exercise. Yet seen from a practitioner point of view it falls a little short in trying to be both a supporting tool as well as a training tool. But overall I think that the book and the online companion work well together and are to business model designing what Batman and Robin are to crime fighting – a dynamic duo.

On the book as a whole, the professor says:

As a professor from the fields of management and performance measurement it is a relief to endure a contribution that realizes that the creation of value essentially stems from an organization providing a product or service to a customer (either another organization or a consumer) which is of value to him/her. The following negotiation between these two entities then leads to a pricing and payment agreement, and ultimately the realization of value coupled with the related costs leads to a profit contribution.

In the literature, I currently see many interpretations of value creation that are related to financialization and accounting practices. While we must not neglect the positive attributes of sound financial business models with for example high liquidity ratios and a high level of free cash flow, none of them will be sustainable in the long term if what the company brings to the market is of poor value to the customer now or somewhere in the future. Sometimes investors and financial analysts tend to forget this perspective in their reports.

Hopefully, the perspective of the *Business Model Canvas* and *Value Proposition Canvas* will in time find their ways more broadly into the curriculum of business and finance and resolve this forgetfulness. According to Osterwalder and Pigneur[1] (2015), 250 universities in the USA have adopted the *Business Model Generation* book for one or more courses. For now, however, we are seeing the growing popularity and importance of thinking in terms of business models and value propositions more or less only in the fields of entrepreneurship, business development and intrapreneurship. However, this is not a bad place to start. In time, we might ponder the positive aspects of introducing these lines of thought to certain areas of public administration, university administration and banking. Just a thought.

Value Proposition Design is organized in four sections. The first 25 pages of the book provide an extensive introduction with a comprehensive table of content, and arguments for why readers should invest time in this book. Here the authors use the book's own model to describe the "pains" which they have identified amongst their customers (the readers) and subsequently which "pain relievers" and "gain creators" the book and the online companion offer. Naturally, this is concluded with the books own value proposition, which is to "Design, test and deliver what customers want". Concluding, there is an online test, by which you can
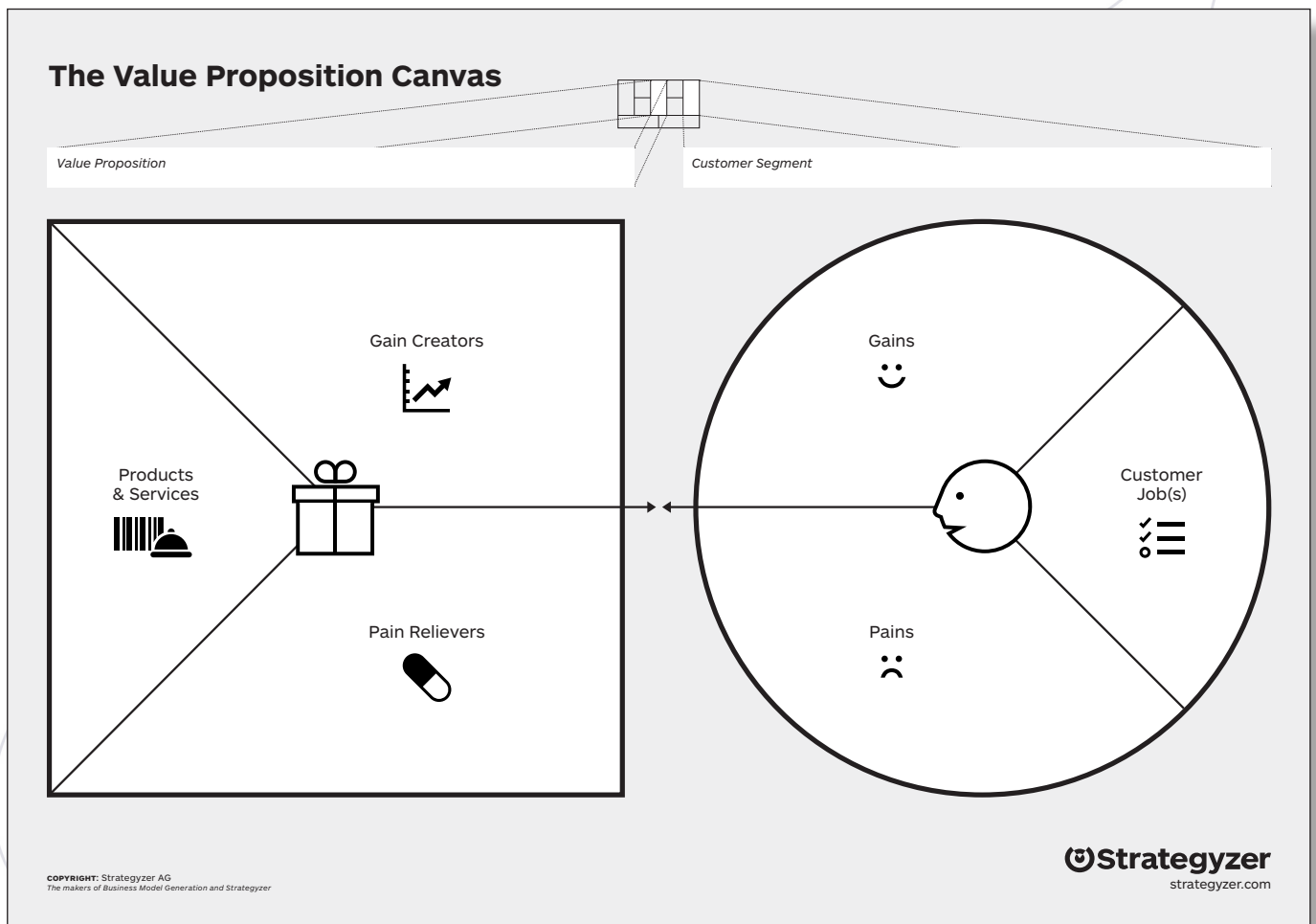
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[1] Osterwalder, A., and Pigneur, Y. (2015) The Business Model Canvas: Why and how organizations around the world adopt it. A field report from Strategyzer. Accessed from http://blog.strategyzer.com (26.02.2015).

assess your Value Proposition Design skills as well as receive a few good pointers on how you convey the idea of VPD to your colleagues.

SECTION 1 – CANVAS

The first section of the book explains the thought process behind *Value Proposition Design* as well as providing instructions for using the VPC. It describes the two sides of the VPC: 1) a Customer Profile side where you clarify your customer understanding, and 2) a Value Map side where you map out how you intend to create value for that customer. The Value Proposition Canvas is a simple model that points out "the pains" the users struggle with, and "the gains" which they strive for, held against the "pain relievers" and "gain creators" the organisation offers. It also describes what it means to achieve FIT between the two sides of the model.

The Value Proposition Canvas

Value Proposition

Customer Segment

Gain Creators

Products & Services

Pain Relievers

Gains

Customer Job(s)

Pains

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The book gives a simple and accessible way of researching whether the value propositions of a company's business model correlates with the actual needs of the customers it wishes to serve. The so called FIT. In principle this is not new, but it has never been formulated in a more understandable fashion.
Not only is the canvas a highly efficient and understandable tool, it is in addition a fun and inspiring way of working with strategy and business development.

The practitioner says:

"Observe Customers – Create Value". It is that simple. And when the authors explain it graphically, it really is easy to understand that Value Proposition Design is all about achieving FIT between Customer Profiles on the one hand side and the Value Map on the other.

The subdivision into three fields on each side of the canvas is easy to command and easily accessible. As a user I find that each field will be filled up with notes rather quickly. The book and the online companion provide good advice on checking for the given FIT. Where the book makes a notable difference is in the section regarding rankings of the notes and the guidelines as to how the process should be guided. The ranking goes from "nice to have" to "essential" and the "best practices and common mistakes" which is shown on pages 24-25 under Customer Profiling and on page 39 under Value Mapping helps to improve the value gained from working with the VPC.

What's more, the table on page 42-43 helps you pick the right direction for your value proposition. By looking at the rankings it often becomes clear whether you should address the essential gains or the most extreme pains. Finally, the selection of the different types of FIT and the walkthrough of the different contexts, which applies to the same customer, is helping to refine and vary the usage of the VP Canvas.

The professor says:

The model presented here should be taught on the first semester of any under-grad business education. It forces managers and entrepreneurs to consider if there is a market for their product. This is not new in any sense, but to be honest, I have not seen it formulated in a more understandable fashion previously. This model has been used successfully with business students in their project work the last two years with us. For me there are two central passages in this section:

1. The section on achieving FIT as a whole (starting page 40)

2. Particularly the section on customer segmentation and why this should be done according to perceived use value of different customer groups provided on pages 54 to 59 is a must read for any manager or business owner

SECTION 2 – DESIGN

The second section of the book revolves around how you design the best possible value proposition, or rather, how to design different prototypes of value propositions. Here the Value Proposition Canvas is linked with the Business Model Canvas and the environment surrounding a company's business model and the reader is introduced to prototyping techniques and how to start a value proposition design process.

That is why we think you will enjoy the 10 Prototyping Principles on pages 78-79. The three first principles assure a better process along with more and better ideas: 1) Make it visible and tangible 2) Embrace a beginners mind – don't let existing knowledge get in the way 3) Don't fall in love with first ideas – create alternatives. The design thinking influence of this book teaches us the importance of never falling in love with the first idea or to work into too great detail too early; because this makes you attached to the idea. As such,

you want to work within rough universes and work up-tempo and in drafts and sketches. The more the better.

The book describes many relevant techniques, which enable you to attain insight into customer profiles and to create ideas and innovation from these. Not all of the tools are easy to use, which the book also attempts to accommodate in being explicit about the level of difficulty for each of the tools. Be aware that some of the techniques may be difficult to apply without any prior knowledge. Especially the co-creation technique might demand more background than what is on offer in the book alone.

The checklists "10 Questions to Assess your Value Proposition" on page 122-123 and "7 Questions to asses Business Models" on page 156-157 work really well. Whether it be on paper or through the online companion, these lists are essential when the different prototypes are to be evaluated against each other.

We are both particularly fond of the section "From Value Proposition to Business Model and Back again" on pages 152 and 153. This exercise illustrates how to change perspective in relation to the business model by zooming out and then back in again. This enables you to see the weaknesses and opportunities in the proposed value propositions and decipher what happens when you refine or change the value proposition or customer segment.

The practitioner says:

As creative director and business model designer, I have worked with many of the starting points for idea development, which the book mentions in section 2.2 from page 88 and forward. The book gives you very practical instructions, and I agree fully with the point of departure, namely that great value proposition does not have to be centred around the customer, but may also originate from other successful value propositions and business models from other trades. Why would you not? In love, war and business development, all is fair. So "steal" with pride.

In the last part of the second section, which is the part of the book I find the best and most useful, you find instructions to composing a workshop in an already established organization. There is quite detailed information, which shows what part of the book you should use at what time. My experiences lead me to caution the readers on the ease of conducting these processes. There are many places where this process can fail if you endeavour into a workshop with many hopeful participants. I recommend that you pilot these processes with a small group of employees whom you know well and who are aware of the premise of such a pilot workshop.

The professor says:

Having worked with the Value Proposition Canvas for a couple of years now, my favourite passage of this book is found in section 2, and specifically sections 2.4, 2.5 and the first part of section 2.6 (starting on page 120 to page 165). From my personal perspective, section 2 also seems to be the most developed part of the book. The only negative aspect would be to comment on the widespread mix of introduction to the models and workshop tools. While its practical nature is the core strength of the book in general perhaps some form of distinction in the colour scheme could have enlightened the organization of the mix between tools and models?
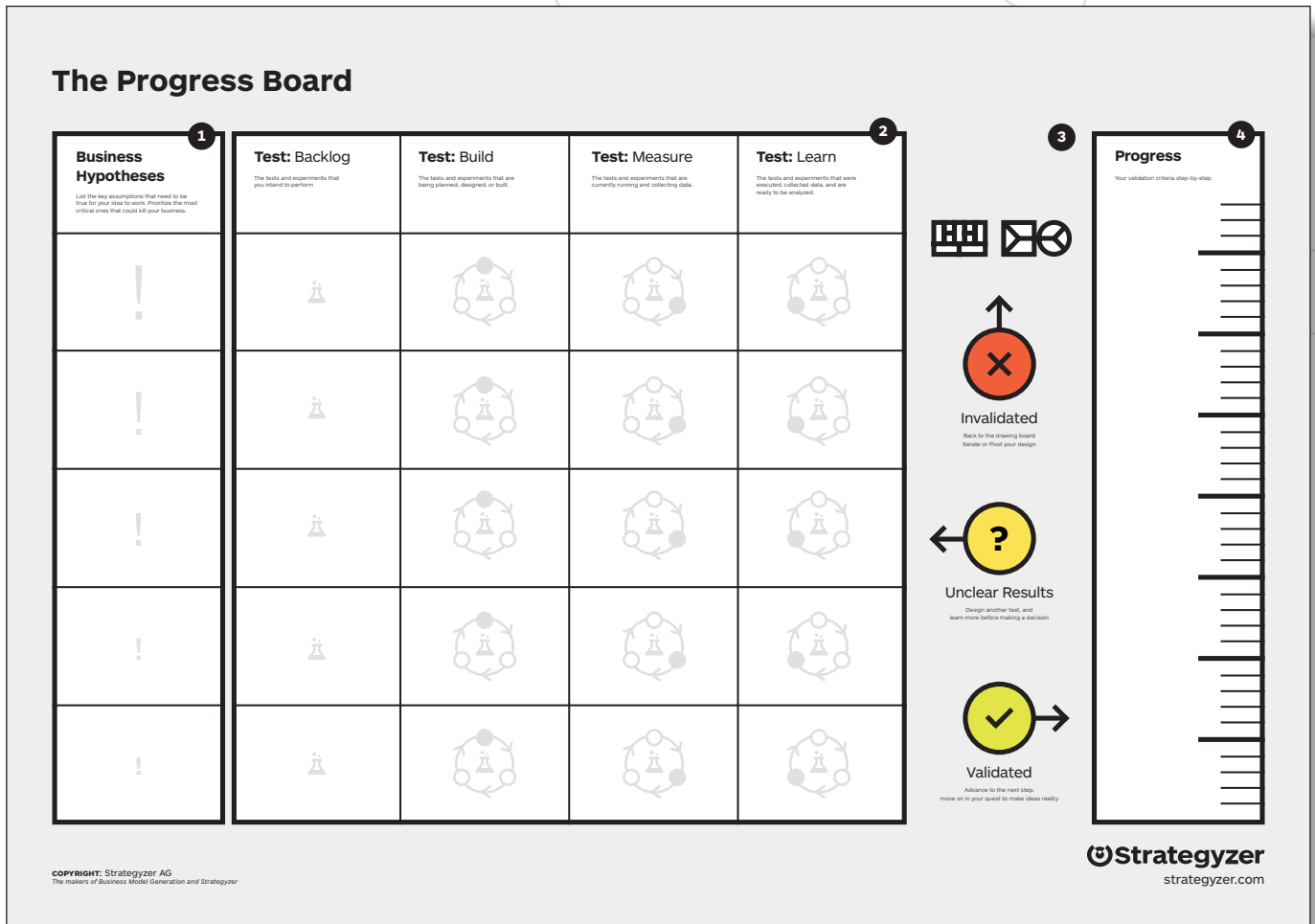
The Progress Board

To manage the test process you can use the Progress Board poster, an example of the extensive amount of extras in the Online Companion which comes with the book. It offers very accessible and useful tools and templates and even tests and exercises, all of which correlates to the book's curriculum.

SECTION 3 – TEST

The third section of the book revolves around how to reduce risks of failure when developing value propositions by testing them. The section offers principles for testing and validating value propositions and shows how progress can be measured and followed minutely by help of simple yet effective tools such as Test Card, Learning Cards and a newly developed Progress Board (pages 244 to 245).

The book includes a very enlightening case story of the Owlet baby monitor illustrating how many of the tools provided with the book for designing and testing value propositions and business models was used by the winners of an international business model competition. They did so in part by using the concept of Minimum Viable Product, which the book describes.

Section 3.3 offers a bibliotheca of different tests in the Experiment Library. An array of different experiments and test methods, all of which take their point of departure in a *Call to Action*, are described. The idea is to attain evidence of what works and what does not from the customers' perspectives. Among the techniques are guides on how to test the interest and relevance of a value proposition, the customers' priorities and

preferences and – not least – their willingness to pay for the value provided. With point of departure in Steve Blank's Investment Readiness Thermometer (page 242), the section is rounded off with instructions to how one can measure the testing process.

The practitioner says:

I find the test section very inspiring. When I introduce these methods during workshops to get better traction and strengthen the developed value propositions, I only receive positive feedback. This is something everyone seems to find valuable. The power of the test section lies, in my opinion, in the description of the hypothesis-based test process, where the people behind Strategyzer have developed some very simple, yet extremely effective tools. I am talking about Test Cards, which makes it easy to design a test, and Learning Cards, which makes it possible to retain and maintain the results and insights. Overview of the Testing Process is developed in the usual easily accessible graphic form and can be found on page 198-199. As recent as early March 2015, I introduced VPD, prototyping and test methods to a large European pharmaceutical company, which found the tools to be very useful in order to indicate what their R&D department should focus on in the future.

The professor says:

This section of the book is a very practical "how to" guide for entrepreneurs or business developers. I agree fully with the mantra '*Go out and find evidence for what you are proposing*'. Too many entrepreneurs and even students sit in front of their laptops and think they can find evidence of customer needs in that way. I think the section on five data traps to avoid is very important to consider and I personally enjoyed the Product Box technique. I am putting that into practice the very next chance I get.

SECTION 4 – EVOLVE

The fourth and final section, "evolve", is more than anything a plea from the books authors to continue developing, measuring and monitoring both Business Model and Value Proposition performance and to continually track the satisfaction of your customers. The book uses the Chinese e-commerce company, Taobao, part of the Alibaba group, as an example of how the tools, which normally are used for designing and testing business models and value propositions, may also be used for continuous reinvention of the business.

In the first part of the Section 4 (page 169-162), the authors introduce alignment opportunities, which an increasing number of communication, marketing and advertising people know and use on a daily basis. Especially the Value Proposition Canvas is a good tool to create alignment in relation to advertising, sales, internal and external branding, employer advocacy and so forth. There are many possibilities in using the tools in this book for creating value added "narratives" for both internal and external stakeholders. Lastly, the authors have provided a very useful glossary, which especially becomes useful for people who have limited experience with BMG and VPD.

The practitioner says:

As I see it, the authors use the last section not just to conclude and to put into perspective but just as much to urge users and supporters of Value Proposition Design to strive for more and better solutions, to keep on developing, optimizing and measuring their effort to adjust their value propositions to what customers want.

Seen from a strategic planner and creative director perspective, I see a lot of possibilities in using the tools in this book – not just in creating products and services customers want, but also in creating value added branding and "story doing" based on the perfect brief that the Value Proposition Canvas actually represents.

I am grateful to have been among the team of pre-readers and it is worth noting that the process of reading the book with even more critical eyes have not changed my impression of "Value Proposition Design". I believe it is a very useful and in many ways ground-breaking handbook, which makes strategy work and the creation of products and services customers want much more qualified and even more fun.

The professor says:

I sense the authors wanted a concluding section to the book, however, the final section about evolving the Value Proposition comes short of the thoughtfulness of the remainder of the book and it lacks the coherence of the rest of the book. On the other hand this opens up, not only for a little critique, but also for some more work to be done. As professor of Business Models and Performance Measurement, I can only say that the Measure and Monitor section inspires me to keep working towards the next generation of tools.

CONCLUDING REMARKS AND FUTURE DIRECTIONS

This book is a must read for undergraduate students in any field where creating a new product or new knowledge might be a possibility. This includes not only students in business and social sciences but also students of humanities, engineering and medicine. At Aalborg University, Denmark, we have both been involved in bringing these models into the business model curriculum and teaching it to 150+ students. Last year we had to cheat and use the information available from Strategyzer's blog, so we are looking forward to feeling the coherence brought about by this cookbook in class.

Likewise, for anyone involved in product or business development, or new venture creation this book is a must read, of course alongside *Business Model Generation* because the latter provides a common language for the process spelt out in this book. For the practitioner, VPD is an exquisite cookbook with recipes.

The practitioner says:

To me, strategy and business development is about creating actual value, and not about a bunch of buzzwords. As such, I think that VPD is a highly valuable contribution to all who need to invent, optimize or renew their business models. That goes for entrepreneurs as well as small, medium or large enterprises and organizations. The authors are definitely inspired by Dan Roam's thoughts about minimizing the "blah blah blah" in meetings and reports on strategy and business development. Hence they strive to replace words with pictures where possible. That has resulted in a very different book about business. A book, which uses the simplicity and effective means of instructive drawings to clarify what it's talking about – and more importantly, what it means.

The professor says:

For me the highlight of the book was section 2 on designing value propositions; particularly pages 120 to 165. I have just read them again and they are equally informative third time around. I did feel that the Evolve section needed a bit more work. However, like Business Model Generation left a door open for the Value Proposition Design book, these weak spots related to the alignment and measurement of the evolving business model innovation process leave yet another couple of doors open. When I look back at both Business Model Generation and Value Proposition Design I feel that an interesting angle is to work more on the patterns introduced in the former and applied sporadically in the latter. Some more work needs to be done in this respect. At the Business Model Design Center we have also dissected all known business model configurations, presently there are 62, and are in the process of combining them with the notions of performance measurements.

Strategy and business development is something that should be taken very seriously. In our opinion this is exactly what is done in Value Proposition Design. The authors take strategy and business development very seriously by acknowledging that companies and organizations that need to invent or reinvent themselves cannot afford that the development of business models is an exclusive exercise for a few selected people in top management. VPD adds new and necessary resources for strategy and business development to existing businesses and advocates for bringing business development into the culture of a given company.

About the book review authors

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