

How to create products and
services customers want.
Get started with...

Value Proposition Design

strategyzer.com/vpd

Written by
Alex Osterwalder
Yves Pigneur
Greg Bernarda
Alan Smith

Designed by
Trish Papadakos

WILEY



Value Proposition Design

Cover image: Pilot Interactive

Cover design: Alan Smith and Trish Papadakos

This book is printed on acid-free paper. ∞

Copyright © 2014 by Alexander Osterwalder, Yves Pigneur, Alan Smith, Greg Bernarda, and Patricia Papadakos. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at www.wiley.com/go/permissions.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with the respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor the author shall be liable for damages arising herefrom.

For general information about our other products and services, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

ISBN 978-1-118-96805-5 (paper); ISBN 978-1-118-96807-9 (ebk); ISBN 978-1-118-96806-2 (ebk); ISBN 978-1-118-97310-3 (ebk)

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

How to create products and
services customers want.
Get started with...

Value Proposition Design

strategyzer.com/vpd

Written by

Alex Osterwalder

Yves Pigneur

Greg Bernarda

Alan Smith

Designed by

Trish Papadakos

WILEY

1. Canvas

- 1.1 **Customer Profile** 10
- 1.2 **Value Map** 26
- 1.3 **Fit** 40

2. Design

- 2.1 **Prototyping Possibilities** 74
- 2.2 **Starting Points** 86
- 2.3 **Understanding Customers** 104
- 2.4 **Making Choices** 120
- 2.5 **Finding the Right Business Model** 142
- 2.6 **Designing in Established Organizations** 158



3. Test

- 3.1 What to Test** 188
- 3.2 Testing Step-by-Step** 196
- 3.3 Experiment Library** 214
- 3.4 Bringing It All Together** 238

4. Evolve

- Create Alignment** 260
- Measure & Monitor** 262
- Improve Relentlessly** 264
- Reinvent Yourself Constantly** 266
- Taobao: Reinventing (E-)Commerce** 268

- Glossary** 276
- Core Team** 278
- Prereaders** 279
- Bios** 280
- Index** 282



You'll love *Value Proposition Design* if you've been...



VI

STRATEGYZER.COM / VPD / INTRO



Overwhelmed by the task of true value creation

Sometimes you feel like...

- There should be better tools available to help you create value for your customers and your business.
- You might be pursuing the wrong tasks and you feel insecure about the next steps.
- It's difficult to learn what customers really want.
- The information and data you get from (potential) customers is overwhelming and you don't know how to best organize it.
- It's challenging to go beyond products and features toward a deep understanding of customer value creation.
- You lack the big picture of how all the puzzle pieces fit together.



Frustrated by unproductive meetings and misaligned teams

You have experienced teams that...

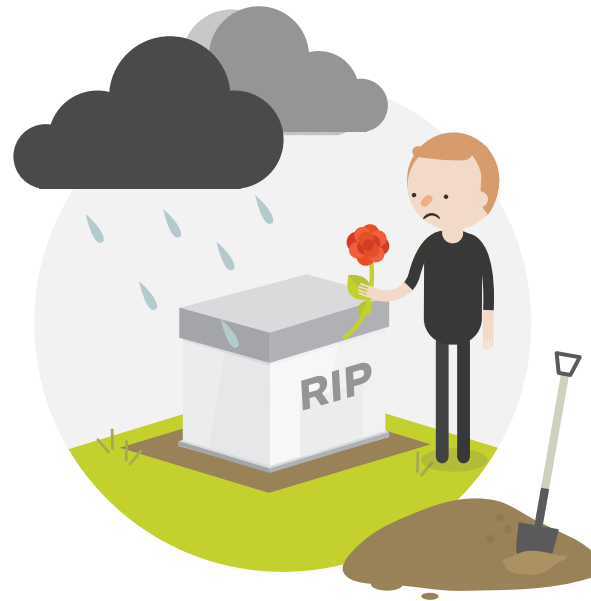
- Lacked a shared language and a shared understanding of customer value creation.
- Got bogged down by unproductive meetings with tons of unstructured “blah blah blah” conversations.
- Worked without clear processes and tools.
- Were focused mainly on technologies, products, and features rather than customers.
- Conducted meetings that drained energy and ended without a clear outcome.
- Were misaligned.



Involved in bold shiny projects that blew up

You have seen projects that...

- Were big bold bets that failed and wasted a lot money.
- Put energy into polishing and refining a business plan until it perpetuated the illusion that it could actually work.
- Spent a lot of time building detailed spreadsheets that were completely made up and turned out to be wrong.
- Spent more time developing and debating ideas rather than testing them with customers and stakeholders.
- Let opinions dominate over facts from the field.
- Lacked clear processes and tools to minimize risk.
- Used processes suited for running a business rather than ones for developing new ideas.



Disappointed by the failure of a good idea.

👤 Get *"From Failure to Success"* poster

Value Proposition Design will help you successfully...



VIII

STRATEGYZER.COM / VPD / INTRO



Understand the patterns of value creation

Organize information about what customers want in a simple way that makes the patterns of value creation easily visible. As a result, you will more effectively design value propositions and profitable business models that directly target your customers' most pressing and important jobs, pains, and gains.

Gain clarity.



Leverage the experience and skills of your team

Equip your team with a shared language to overcome “blah blah blah,” conduct more strategic conversations, run creative exercises, and get aligned. This will lead to more enjoyable meetings that are full of energy and produce actionable outcomes beyond a focus on technology, products, and features toward creating value for your customers and your business.

Get your team aligned.



Avoid wasting time with ideas that won't work

Relentlessly test the most important hypotheses underlying your business ideas in order to reduce the risk of failure. This will allow you to pursue big bold ideas without having to break the bank. Your processes to shape new ideas will be fit for the task and complement your existing processes that help you run your business.

Minimize the risk of a flop.



Design, test, and deliver what customers want.

 Get "From Failure to Success" poster



IX

STRATEGYZER.COM / VPD / INTRO

Our Value Proposition to You

The links you see on the side of every page point to resources in the online companion.

Watch for the Strategyzer logo and follow the link to online exercises, tools/templates, posters, and more.

Note: To gain access to these exclusive online portions of *Value Proposition Design*, you'll need to prove you own the book. Keep the book near you to help you answer the secret questions and verify your ownership!



VPD Book

+

VPD Online Companion

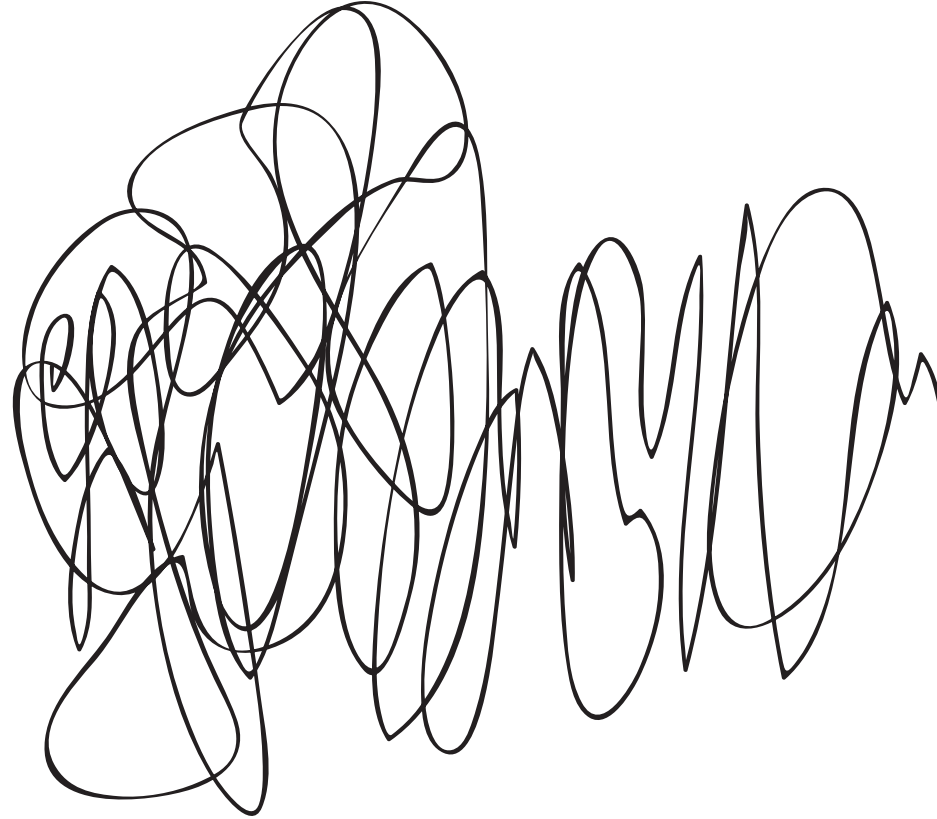
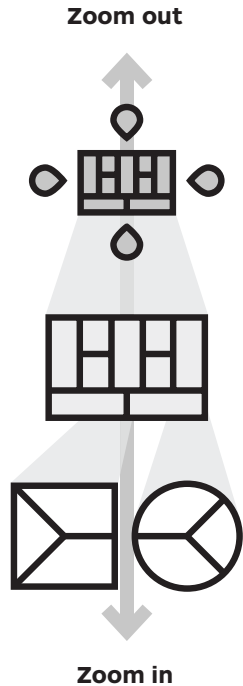


Web App + Online Courses

Go further with pro tools and courses



The Tools and Process of Value Proposition Design



Canvas

Tools

Design / Test

Search

The heart of *Value Proposition Design* is about applying **Tools** to the messy **Search** for value propositions that customers want and then keeping them aligned with what customers want in **Post search**.

Value Proposition Design shows you how to use the **Value Proposition Canvas** to **Design** and **Test** great value propositions in an iterative search for what customers want. Value proposition design is a never-ending process in which you need to **Evolve** your value proposition(s) constantly to keep it relevant to customers.



Progress

Manage the messy and nonlinear process of value proposition design and reduce risk by systematically applying adequate tools and processes.

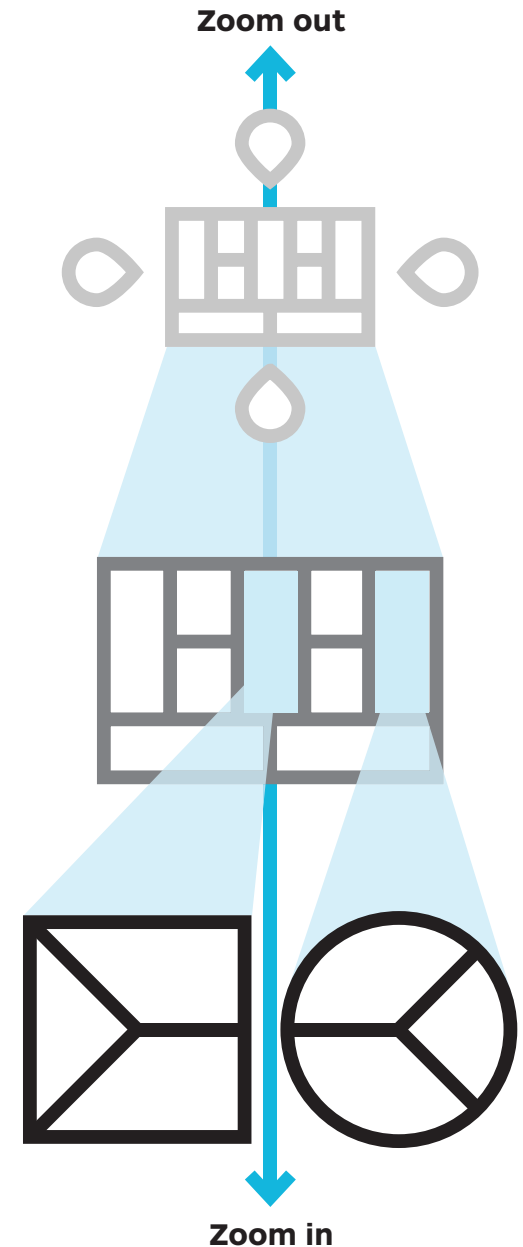
Evolve

Post search

An Integrated Suite of Tools

The Value Proposition Canvas is the tool at the center of this book. It makes value propositions visible and tangible and thus easier to discuss and manage. It perfectly integrates with the Business Model Canvas and the Environment Map, two tools that are discussed in detail in *Business Model Generation*,* the sister book to this one. Together, they shape the foundation of a suite of business tools.

The Value Proposition Canvas zooms into the details of two of the building blocks of the Business Model Canvas.



* *Business Model Generation*, Osterwalder and Pigneur, 2010.

The
Environment Map
helps you *understand the context
in which you create.*

The
Business Model Canvas
helps you
create value for your business.

The
Value Proposition Canvas
helps you
create value for your customer.

Refresher: The Business Model Canvas



XVI

Embed your value proposition in a viable business model to capture value for your organization. To do so, you can use the Business Model Canvas, a tool to describe how your organization creates, delivers, and captures value. The Business Model Canvas and Value Proposition Canvas perfectly integrate, with the latter being like a plug-in to the former that allows you to zoom into the details of how you are creating value for customers.

The refresher of the Business Model Canvas on this spread is sufficient to work through this book and create great value propositions. Go to the online resources if you are interested in more or get *Business Model Generation*,* the sister publication to this book.

Customer Segments

are the groups of people and/or organizations a company or organization aims to reach and create value for with a dedicated value proposition.

Value Propositions

are based on a bundle of products and services that create value for a customer segment.

Channels

describe how a value proposition is communicated and delivered to a customer segment through communication, distribution, and sales channels.

Customer Relationships

outline what type of relationship is established and maintained with each customer segment, and they explain how customers are acquired and retained.

Revenue Streams

result from a value proposition successfully offered to a customer

segment. It is how an organization captures value with a price that customers are willing to pay.

Key Resources

are the most important assets required to offer and deliver the previously described elements.

Key Activities

are the most important activities an organization needs to perform well.

Key Partnerships

shows the network of suppliers and partners that bring in external resources and activities.

Cost Structure

describes all costs incurred to operate a business model.

Profit

is calculated by subtracting the total of all costs in the cost structure from the total of all revenue streams.

* *Business Model Generation*, Osterwalder and Pigneur, 2010.



XVII

STRATEGYZER.COM / VPD / INTRO

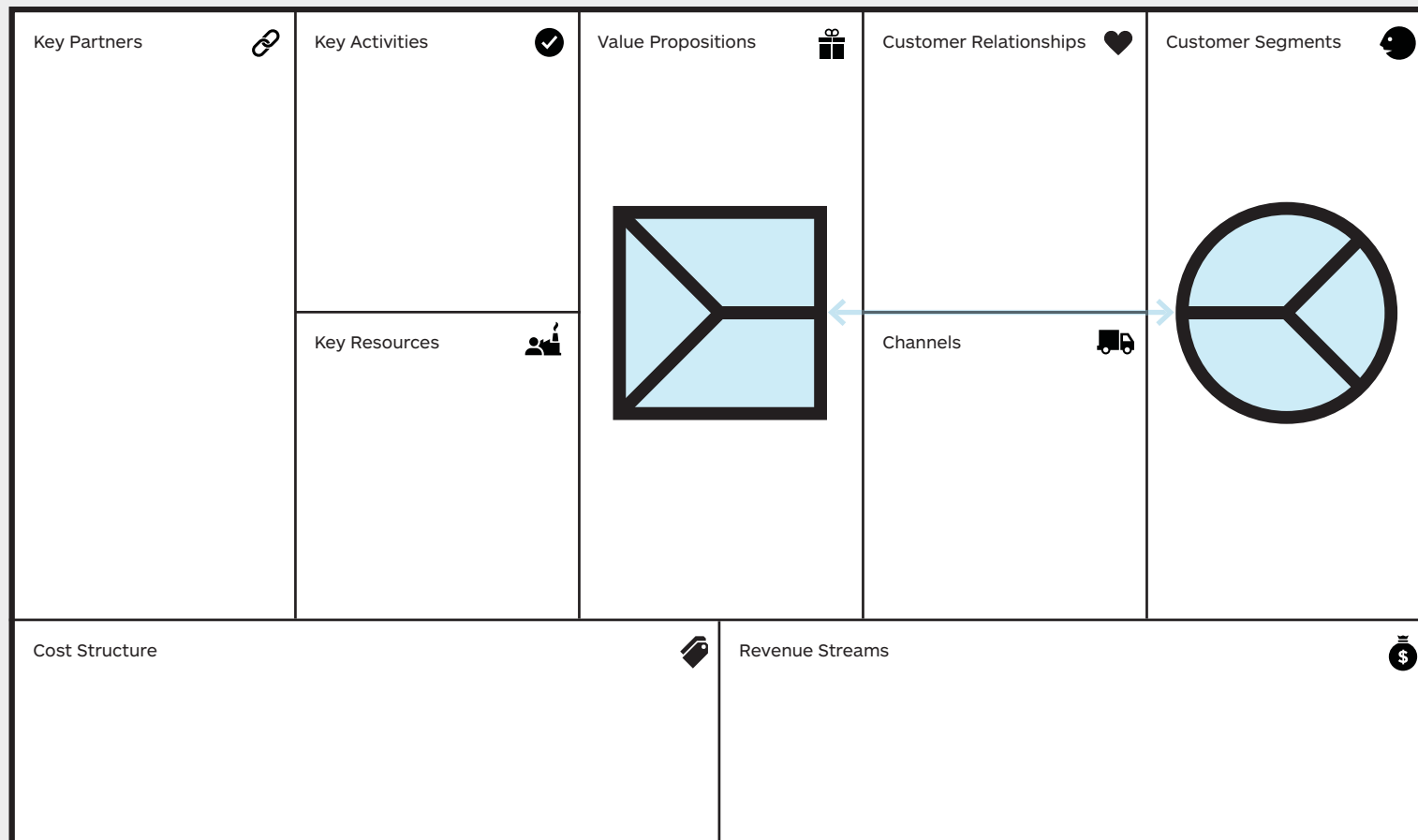
The Business Model Canvas

Designed for:

Designed by:

Date:

Version:



DESIGNED BY: Business Model Foundry AG
The makers of Business Model Generation and Strategyzer

This work is licensed under the Creative Commons Attribution-Share Alike 3.0 Unported License. To view a copy of this license, visit:
<http://creativecommons.org/licenses/by-sa/3.0/> or send a letter to Creative Commons, 171 Second Street, Suite 300, San Francisco, California, 94105, USA.



Value Proposition Design works for...



XVIII

Are you creating something from scratch on your own or are you part of an existing organization? Some things will be easier and some harder depending on your strategic playground.

A start-up entrepreneur deals with different constraints than a project leader for a new venture within an existing organization. The tools presented in this book apply to both contexts. Depending on your starting point you will execute them in a different way to leverage different strengths and overcome different obstacles.

Main challenges

- Produce proof that your ideas can work on a limited budget.
- Manage involvement of investors (if you scale your ideas).
- Risk running out of money before finding the right value proposition and business model.

New Ventures

Individuals or teams setting out to create a great value proposition and business model from scratch

Main opportunities

- Use speedy decision making and agility to your advantage.
- Leverage the motivation of ownership as a driver for success.



Established Organizations

Teams within existing companies setting out to improve or invent value propositions and business models

📄 Get "Innovating in Established Organizations" poster

Main opportunities

- Build on existing value propositions and business models.
- Leverage existing assets (sales, channels, brand, etc.).
- Build portfolios of business models and value propositions.



Main challenges

- Get buy-in from top management.
- Get access to existing resources.
- Manage cannibalization.
- Overcome risk aversion.
- Overcome rigid and slow processes.
- Produce big wins to move the needle.
- Manage career risk of innovators.



XIX

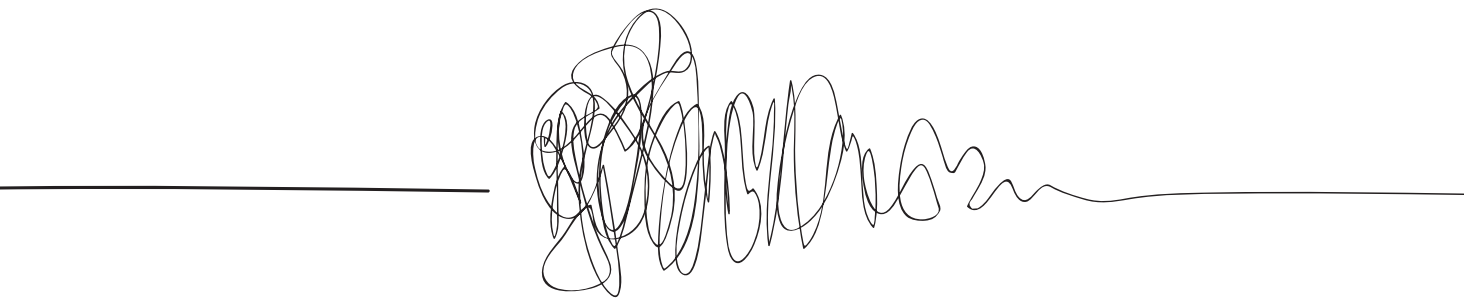
Use *Value Proposition Design* to...

invent and improve value propositions. The tools we will study work for managing and renewing value propositions (and business models) just as much as for creating new ones. Put the value proposition and business model to work to create a shared language of value creation in your organization. Use them to continuously invent and improve value propositions that meet customer profiles, which is an undertaking that never ends.



Invent

Invent new value propositions that people want
with business models that work.



Improve


Manage, measure, challenge, improve, and renew existing value propositions and business models.



XXII

Assess Your Value Proposition Design Skills

Complete our online test and assess whether you have the attitude and skills required to systematically be successful at value proposition design. Take the test before and after working through *Value Proposition Design* to measure your progress.

 [Take your skills test online](#)



Entrepreneurial Knowledge

You enjoy trying out new things. You don't see the risk of failing as a threat but an opportunity to learn and progress. You easily navigate between the strategic and the tactical.



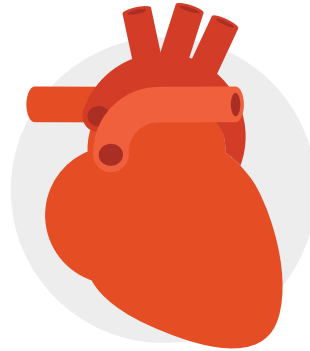
Tool Skills

You systematically use the Value Proposition Canvas, Business Model Canvas, and other tools and processes in your search for great value propositions and business models.



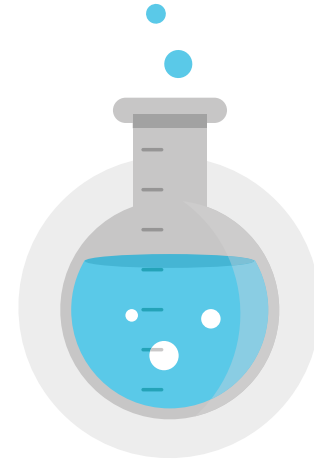
Design Thinking Skills

You explore multiple alternatives before picking and refining a particular direction. You are comfortable with the nonlinear and iterative nature of value creation.



Customer Empathy

You relentlessly take a customer perspective and are even better at listening to customers than selling to them.



Experimentation Skills

You systematically seek evidence that supports your ideas and tests your vision. You experiment at the earliest stages to learn what works and what doesn't.



XXIII

Sell Your Colleagues on Value Proposition Design



XXIV

STRATEGYZER.COM / VPD / INTRO

I am...

worried that we focus too much on products and features instead of creating value for customers.

astonished at how poorly aligned product development, sales, and marketing are when it comes to developing new value propositions.

concerned that we don't have a methodology to track our progress on the development of that new value proposition and business model.

surprised at how often we make stuff nobody wants, despite our good ideas and good intentions.

really disappointed by how much we talked about value propositions and business models at our last meeting without really getting tangible results.

blown away by how unclear that last presentation on that new value proposition and business model was.

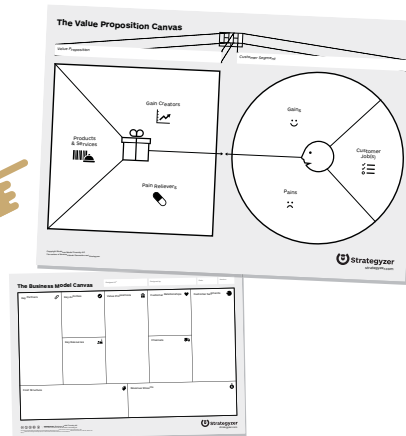
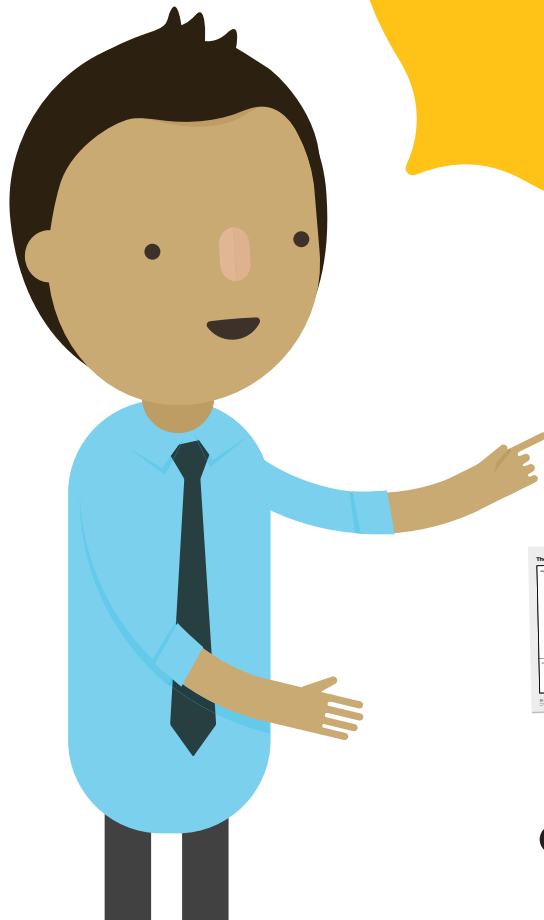
amazed by how many resources we wasted when that great idea in that last business plan turned out to be a flop because we didn't test it.

concerned that our product development process doesn't use a more customer-focused methodology.

surprised that we invest so much in research and development (R&D), but fail to invest in developing the right value propositions and business models.

not sure if everybody in our team has a shared understanding of what a good value proposition actually is.

So, what if
we tried out the
**Value Proposition
Canvas** (and *Business
Model Canvas*) in our
next project?



can

vas

1

The Value Proposition Canvas has two sides. With the Customer Profile ^{p. 10} you clarify your customer understanding. With the Value Map ^{p. 26} you describe how you intend to create value for that customer. You achieve Fit ^{p. 40} between the two when one meets the other.

