Chapter 5

Define Your Value Proposition (Step 3)

The next step in the Lean Product Process is to define your product value proposition, which is the next layer in the Product-Market Fit Pyramid. At this point, you have identified several important customer needs that you could potentially address. Now you need to decide which ones your product *will* address. You want to do so deliberately and resist the temptation to tackle more needs than you should.

A good product is designed with focus on the set of needs that are important and that make sense to address together. Swiss Army knives are incredibly useful, providing a set of tools to address a wide range of needs all in one convenient package. But at some point, as you add more and more tools, a Swiss Army knife gets wider, heavier, less usable, and less valuable. Focus is critical when defining a new product.

You also don't want to unnecessarily risk wasting resources with an initial product scope that is too large. You do not have perfect information about all those customer needs. There is quite a bit of uncertainty in both your hypotheses and in what you think you know. That's why you want to start off by identifying the *minimum* viable product. Remember, all of your hypotheses about customer needs are hinged on an underlying assumption about your target customer. If you test your MVP and realize that your assumption was wrong, you will have to revisit your hypotheses about the relevant needs to address.

Even if user testing verifies that you are heading in the right direction, you will learn new information that causes you to revise and add to your problem space hypotheses. And this will occur each time you iterate. You'll never have "perfect information." If you are following a good trajectory as you iterate, there will just be "less imperfect" information that you gather with increasing confidence.

STRATEGY MEANS SAYING "NO"

This step in the Lean Product Process is about determining your *product value proposition*, which identifies the specific customer needs your product will address and articulates how it is better and different than the alternatives. When you specify the needs your product *will* address, you are also deciding the other benefits it *won't* address. It can be difficult for some people to say, "No, our product won't solve that problem"—but that is the essence of strategy. One of the best definitions I've heard of strategy is: "deciding what you're *not* going to do." Here's what Steve Jobs had to say about saying "no":

> People think focus means saying yes to the thing you've got to focus on. But that's not what it means at all. It means saying no to the hundred other good ideas that there are. You have to pick carefully. I'm actually as proud of the things we haven't done as the things I have done. Innovation is saying no to 1,000 things.

So you need to start by selecting the customer needs you plan to address. I will show you how to use the Kano model as an organizing framework, with needs classified as must-haves, performance benefits, or delighters. Since you want to make sure your product will be different and better than the alternatives, you should be classifying needs in the context of your relevant competitors. And since your competitors are usually in the same product category that you are, the must-haves will likely be the same and there will probably be significant overlap among the performance benefits. Different products may have different delighters, though.

It's important to list the must-haves, since they are required. However, since all products in the category have to have them, they are not the core part of your value proposition. The core elements are the performance benefits on which you choose to compete and the unique delighters you plan to provide.

VALUE PROPOSITIONS FOR SEARCH ENGINES

I'll illustrate the concept of product value proposition by going back to the early days of Internet search engines. Back then, there were

many search engines, and different products focused on different performance benefits. Some focused on having the largest number of pages in their index, which meant that they would return the largest number of results when a customer conducted a search. Some search engines focused on their index's "freshness": how quickly they added new pages and updated existing ones. Others focused on having the highest relevance of results. So there are at least three performance benefits on which early search engines competed: the number, the freshness, and the relevance of results. While early search engines also competed on other benefits, I'll limit the discussion to these three for the sake of simplicity. At this early stage in the search engine market, the relative importance of each benefit wasn't clear, and different companies chose different value propositions by focusing on different performance benefits.

Over time, most search engines were indexing a large number of pages, so the number of results became less important. While users liked knowing that there were many results, they didn't usually take the time to look beyond the first few pages. Similarly, most search engines were eventually able to add new pages relatively quickly so that their results were fresh. Therefore, relevance became the most important benefit and the one that offered the biggest opportunity for differentiation. Google was able to achieve much higher relevance than other search engines due to its unique PageRank algorithm. Because they were best at the benefit that mattered most—and had comparable or better performance on the other dimensions—Google won the search engine wars.

Table 5.1 shows these three different value propositions. The table shows that Google focused on relevance, while search engine A focused on the number of search results, and search engine B focused on freshness.

TABLE 5.1   Value Propositions for Early Search Engines

Performance Benefit	Google	Search Engine A	Search Engine B
Number of search results	Acceptable	**Best**	Acceptable
Freshness of search results	Acceptable	Acceptable	**Best**
Relevance of search results	**Best**	Acceptable	Acceptable

What about delighters? Google Suggest, which automatically suggests search query matches, falls into this category. Instead of having to type their entire query—for example, "how many inches are in a yard"—users can start typing the first few letters or words—"how many . . . "—and then a list of suggested queries appears. The user can then just click to select the query they have in mind from the list of suggestions, which saves them time—and the longer the phrase, the more time saved. Seeing the top related phrases also helps people who aren't quite certain about their query, which results in reaching more relevant results more quickly.

Google Instant Search is another delighter. This feature brings up search results as the user types, before the user hits the "enter" key (or selects an auto-suggested query). This feature also saves the user time. Google observed that people can read results much more quickly than they type, usually taking 300 milliseconds between keystrokes but only 30 milliseconds to scan results. Google has quantified the benefit of Instant Search at two to five seconds saved per search. Table 5.2 shows a more complete description of Google's value proposition by adding these two delighters to the performance benefits previously discussed. Google Suggest and Google Instant Search are features, not benefits. I listed the feature names in the column for Google, but listed the benefit associated with each delighter in the leftmost benefits column: saving time entering a search query and saving time viewing search results, respectively.

TABLE 5.2   Google's Value Proposition with Delighters

	Google	Search Engine A	Search Engine B
Performance Benefits			
Number of results	Acceptable	**Best**	Acceptable
Freshness of results	Acceptable	Acceptable	**Best**
Relevance of results	**Best**	Acceptable	Acceptable
Delighters			
Save time entering query	**Yes** (Google Suggest)	No	No
Save time viewing results	**Yes** (Google Instant)	No	No

Google isn't the only search engine with delighters. When Bing sought to differentiate itself from other search engines, one innovation they came up with was the picture of the day. Each day, when you go to the Bing search page, the background image is a different, stunning photo. The photos are annotated with trivia or hints about the image, and users can try to figure out what the object or location of the photo is. The nice images don't make searches any faster or improve the relevance of results, but they provide an interesting, pleasant surprise for users each day.

NOT SO CUIL

One last search engine to discuss is Cuil (pronounced "cool"), which was launched in 2008. By this time, the search engine market was already in the upper right quadrant of the importance versus satisfaction framework. Search was very important, but users were pretty satisfied with the existing search engines, with Google having the largest market share (over 60 percent at the time). Given this situation, it would be critical for any new product entering the category to have a clear value proposition articulating how it would be better and different than the current solutions.

It became clear from their marketing efforts that Cuil was focused on having the largest index. At launch, Cuil claimed an index of 120 billion web pages, which they estimated was three times the size of Google's. They presented search results to users differently by displaying them in a magazine-like format with more photos. They also tried to differentiate on privacy by promising not to retain users' search histories.

So how did Cuil do? Not so well. Critics complained about slow response times and the low relevance of results. Search expert Danny Sullivan of Search Engine Watch criticized Cuil for focusing on index size rather than relevance. Two years after launching, Cuil shut down.

The Cuil team's hypotheses about what would create a successfully differentiated search engine didn't pan out. In order to have a shot at beating the incumbent market leader, the value proposition for your new product would have to at least match them on the two important performance benefits of relevance and response time. I'm sure the Cuil team didn't *plan* to have lower relevance or response time; that's just

what users encountered when they used the product. Even if Cuil had matched Google on those two performance benefits, they would have still needed a valued differentiator to gain significant market share. It's unclear how valuable their intended differentiators of a larger index and increased privacy really were to customers.

Table 5.3 provides a description of Cuil's intended and actual value proposition compared to Google. Changing customer behavior is always difficult—especially in the upper right quadrant—and you need to create a certain amount of excess value to get customers to switch from a product they routinely use. The notion of needing to have "10×" better performance comes to mind again.

TABLE 5.3   Cuil's Value Proposition versus Google

Performance Benefit	Google	Cuil (intended)	Cuil (actual)
Number of search results	Good	**Best**	**Didn't matter**
User privacy	Okay	**Best**	**Didn't matter**
How well results are displayed	Good	**Best**	**Didn't matter**
Response time	Good	Comparable	**Poor**
Relevance of search results	Good	Comparable	**Poor**

BUILDING YOUR PRODUCT VALUE PROPOSITION

Now that the search engine examples have illustrated the concept, let's discuss how you should create your product value proposition. Table 5.4 is a blank template for your value proposition. In the first column, you list the benefits—one per row, grouped by type. You want to include the must-haves, performance benefits, and delighters that are relevant to you and your competitors. You should have a column for each relevant competitor and a column for your product. The blank template lists two competitors. Competitors doesn't just mean direct competitors: in the unlikely case that you don't have any direct competitors, there should still be alternative solutions to your product that customers are currently using to meet their needs (remember how pen and paper was an alternative to TurboTax).

TABLE 5.4   Product Value Proposition Template

	Competitor A	Competitor B	My Product
Must-Haves			
Must-have 1			
Must-have 2			
Must-have 3			
Performance Benefits			
Performance benefit 1			
Performance benefit 2			
Performance benefit 3			
Delighters			
Delighter 1			
Delighter 2			

Once you have established the benefits and competitors, you want to go through each row and score each of the competitors and your own product. If you are assessing an existing product, you can score it; if you are building a new product, you can list the scores you plan to achieve. The entries for must-haves should be "Yes." For performance benefits, you should use whatever scale works best for you: A scale of "High," "Medium," and "Low" usually works well. For performance benefits that are amenable to numerical measurement, you can use the values for higher precision. For example, if you had a restaurant reservations application such as OpenTable, the number of restaurants in your system and the time it takes to make a reservation might be two performance benefits for which you could list numerical values. Delighters are typically unique, so just list each delighter on a separate row and then mark "Yes" where applicable.

See Table 5.5 for an example of a completed value proposition. I've intentionally kept the benefits and competitors generic, so you can more easily envision a similar grid for your product. In this example, there are two existing competitors for the new product you plan to build. All three companies have "yes" for all the must-haves. Competitor A focuses on being the best at performance benefit 1, and Competitor B focuses on being the best at performance benefit 2. You plan to be the best at performance benefit 3. Perhaps you have identified a new customer segment that values performance benefit 3

TABLE 5.5   Example of Completed Product Value Proposition Template

	Competitor A	Competitor B	My Product
Must-Haves			
Must-have 1	Yes	Yes	Yes
Must-have 2	Yes	Yes	Yes
Must-have 3	Yes	Yes	Yes
Performance Benefits			
Performance benefit 1	**High**	Low	Medium
Performance benefit 2	Medium	**High**	Low
Performance benefit 3	Low	Medium	**High**
Delighters			
Delighter 1	**Yes**		
Delighter 2			Yes

more than the others; or perhaps you have a new technology that allows you to achieve higher levels of satisfaction with performance benefit 3. Competitor A has delighter 1, and you have your own idea for a different delighter, delighter 2. Each product's key differentiators are shown in bold.

Completing this grid allows you to clearly articulate what benefits you plan to provide and how you're aiming to be better than your competitors. The column for your product that includes your benefits and intended score for each one is your product value proposition. You have decided on the areas where you plan to play offense and those you are willing to cede as less important. Your key differentiators are the performance benefits where you plan to outperform your competitors as well as your unique delighters. Tying back to last chapter, these differentiators should ideally correspond to underserved benefits that have high importance and low satisfaction, where there are larger opportunities to create customer value.

Few product teams ever complete such an exercise to clarify the value proposition for the product they are planning to build. So merely doing so will put you farther along than most companies. A clear value proposition decreases the likelihood that you are just launching a "me too" product, focuses your resources on what's most important, and increases your chances of success.

SKATING TO WHERE THE PUCK WILL BE

I've described the creation of your value proposition as a static snapshot in time. To be strategic, you want to ensure that you are projecting forward in time, anticipating the important trends in your market and what competitors are likely to do. This is especially important in many high-tech markets, which often have a rapid pace of change. As Wayne Gretzky said, "I skate to where the puck is going to be, not where it's been."

THE FLIP VIDEO CAMERA

A great example related to this is the Flip video camera. Launched by Pure Digital in 2006 as the "Point and Shoot Video Camcorder," many customers found the device superior to traditional camcorders because it was easier to use, more compact, and more affordable. The success of the Flip video camera led Cisco to acquire Pure Digital for $590 million in 2009.

However, two years later, Cisco announced that to align its operations, it would exit aspects of its consumer businesses, including the Flip business. What happened? The Flip video camera achieved product-market fit for several years, but the competitive landscape changed swiftly. In 2009, Apple launched the iPhone 3GS, its first iPhone with built-in video recording. Compared to the Flip, smartphones offered an even more portable solution that avoided the need for a second device. Plus, their wireless connectivity allowed customers to post videos instantly without having to sync to a computer. Cisco corporate strategy aside, it became apparent over time that the smartphone would be the future of easy, portable video recording.

PREDICTING THE FUTURE WITH VALUE PROPOSITIONS

Returning to your value proposition template, to predict the future, you can use separate columns for "now" and "later" for each competitor and your product. "Later" would be whatever length of time is the most relevant for your product strategy purposes. Table 5.6 shows an example of how you could do this.

Table 5.6 has "now" and "in 1 year" columns for the competitor and your product. Competitor A is the best at performance benefit 1

TABLE 5.6 Example of Product Value Proposition with Expected Future States

	Competitor A		My Product	
	Now	In 1 Year	Now	In 1 Year
Must-Haves				
Must-have 1	Y	Y	Y	Y
Must-have 2	Y	Y	Y	Y
Performance Benefits				
Performance benefit 1	High	High	Medium	**High**
Performance benefit 2	Medium	**High**	Low	Low
Performance benefit 3	Low	**Medium**	High	High
Delighters				
Delighter 1	Y	Y		
Delighter 2			Y	Y
Delighter 3		**Y**		
Delighter 4				**Y**

right now, while your product is the best at performance benefit 3 right now. You anticipate that Competitor A will invest in improving performance benefit 3, but won't match you. You also anticipate that Competitor A will invest to extend their lead in performance benefit 2. You have decided that performance benefit 2 is less important to your target market. Instead of investing there, you plan to ensure you stay the best at performance benefit 3 and close the gap on performance benefit 1. Turning to delighters, you each currently have your own unique delighter. Looking forward, you expect your competitor to launch delighter 3 and you plan to launch delighter 4.

Analyzing your product strategy in this way ensures that you're not just solving for current market conditions and reduces the risk that the path you're heading down will end up being suboptimal in the future.

Using the tools in this chapter should help you develop a clear understanding of your value proposition. You then need to determine the set of product features you plan to pursue to deliver on your value proposition. The next step in the Lean Product Process is to specify your MVP feature set.