

Module 1. Value Proposition: Problem-Solution Fit

Unit 1.1 Defining the First Customer Segment

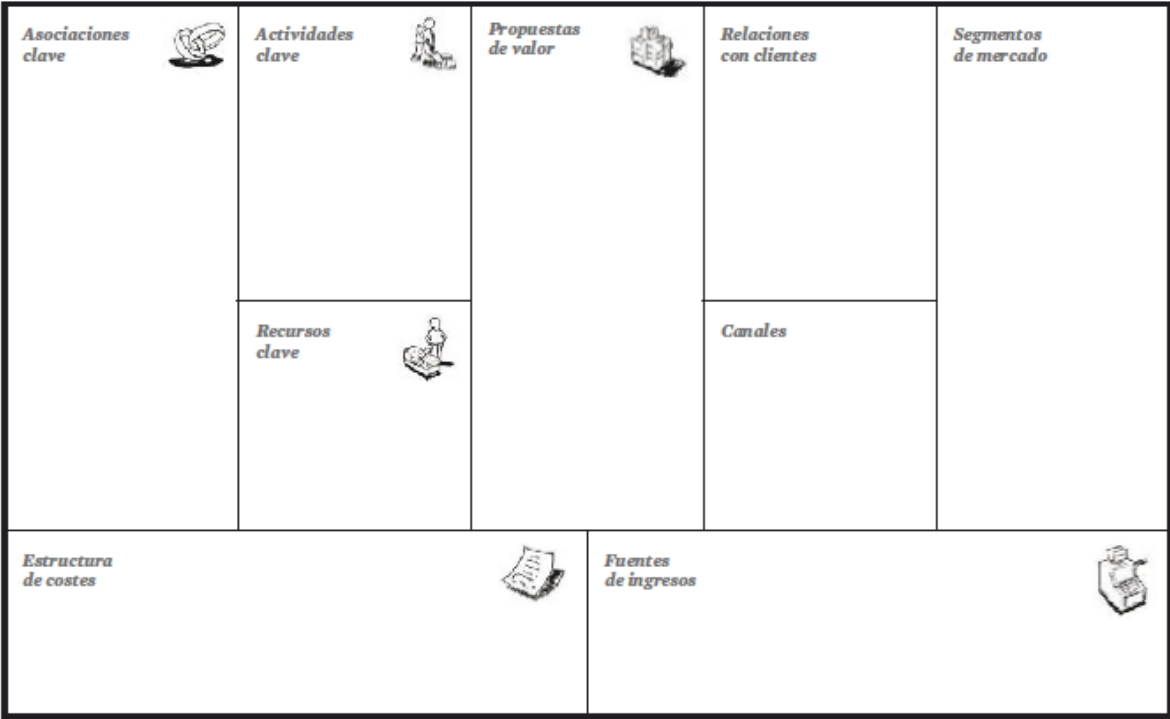
When we have a startup, we sometimes forget that its value lies in solving customers' problems and satisfying their needs. We focus on making improvements to the product or the idea we came up with, but we leave out the most important thing: the value proposition, that is, that the product or idea is useful to someone, the client who is going to invest in our business because they need us to solve their problem.

Taking into account this typical mistake of entrepreneurs, Alexander Osterwalder designed a fundamental tool when thinking about solutions based on real problems of clients or consumers, called Value Proposition Canvas (Osterwalder, Pigneur, Bernarda, and Smith, 2015).

But before analyzing this technique, it is important to know that Osterwalder is an outstanding theoretician, researcher and exponent of business related topics who had previously presented his recognized—and widely used— methodology on the Business Model Canvas (Osterwalder, and Pigneur, 2011).



Figure 1: Canvas



Source: Osterwalder, and Pigneur, 2011, p. 44.

The English translation of this image is below.

Asociaciones clave	Key Partnerships
Actividades clave	Key Activities
Propuestas de valor	Value Propositions
Relaciones con clientes	Customer Relationships
Segmentos de mercado	Customer Segments
Recursos clave	Key Resources
Canales	Channels
Estructura de costes	Cost Structure
Fuentes de ingreso	Revenue Streams

In the following figures, you will find the canvases that are used for each case. Both tools are filled in a dynamic, agile way, modifying the descriptions as the analysis evolves.



Figure 2: Business Model Canvas

1. CUSTOMER SEGMENT

CS: A company serves one or several market segments.

We segment if...

-The needs justify a **different offer**.

-Different **distribution channels** are necessary.

-Their **profitability** is very different.

-They are willing to pay **for different aspects** of the offer.

Different types of markets:

-**Mass** market.

-Market **niche**.

-**Segmented** market.

-**Diversified** market.

-**Multi-sided** markets.

2. KEY PARTNERSHIPS

KP: Some activities are outsourced and certain resources are **acquired outside the company**.

Alliances are created to **optimize** their business models, reduce risk, or acquire resources.

1. Strategic alliances between **non-competitors**.

2. **Coopetition**: strategic partnerships between competitors.

3. **Joint ventures** to develop new businesses.

4. **Buyer-supplier** relationships to assure reliable suppliers

3. CHANNELS

C: They are **touch points** with the client that play an important role in their experience.

1. **Information** How do we raise awareness about our company's products and services?

2. **Evaluation** How do we help customers evaluate our value proposition?

3. **Purchase** How can customers buy our products and services?

4. **Delivery** How do we deliver our value proposition to customers?

5. **Post-purchase** What post-purchase customer support do we provide?

4. KEY ACTIVITIES

KA: These are **the most important actions** a company has to take to operate successfully, and like key resources, they are required to create and offer a value proposition, reach markets, establish relationship with clients and earn revenues.

Categories: Production, Problem solving, Platform / Network.

5. VALUE PROPOSITION

VP: Its objective is to solve customer problems and satisfy their needs through value propositions.

They are a bundle of products or services **that caters to the requirements of a specific customer segment**. In this sense, the value proposition is an aggregation of benefits that a company offers customers.

Elements that create value:

- Newness.
- Performance improvement.
- Customization / Design.
- The job done.
- Brand / Status.
- Price / Cost reduction.
- Risk reduction.
- Accessibility.
- Convenience / Usability.

6. REVENUE STREAMS

RS: The revenue stream is generated when customers acquire the value propositions that are offered.

A business model can involve two different types of revenue streams:

1. **Transaction revenues** resulting from one-time customer payments.
2. **Recurring revenues** resulting from ongoing payments made in exchange for the provisions of a value proposition or post-purchase customer support.

Ways to generate:

- Asset sale.
- Subscription fee.
- Licensing.
- Advertising.
- Usage fee.
- Lending/ renting / leasing.
- Brokerage fees.

7. COST STRUCTURE

CS: The different elements of the business model make up the cost structure.

Classes:

- According to **Costs**.
- According to **Value**.

Characteristics:

- Fixed** costs.
- Variable** costs.
- Economies of **scale**.
- Economies of **scope**.

8. KEY RESOURCES

KR: They are the **necessary assets** to offer and provide, as required, value propositions, distribution channels, customer relationships and revenue streams.

- Physical.
- Intellectual.
- Human.
- Financial.

9. CUSTOMER RELATIONSHIPS

CR: The customer relationships are established and maintained independently with the different customer segments.

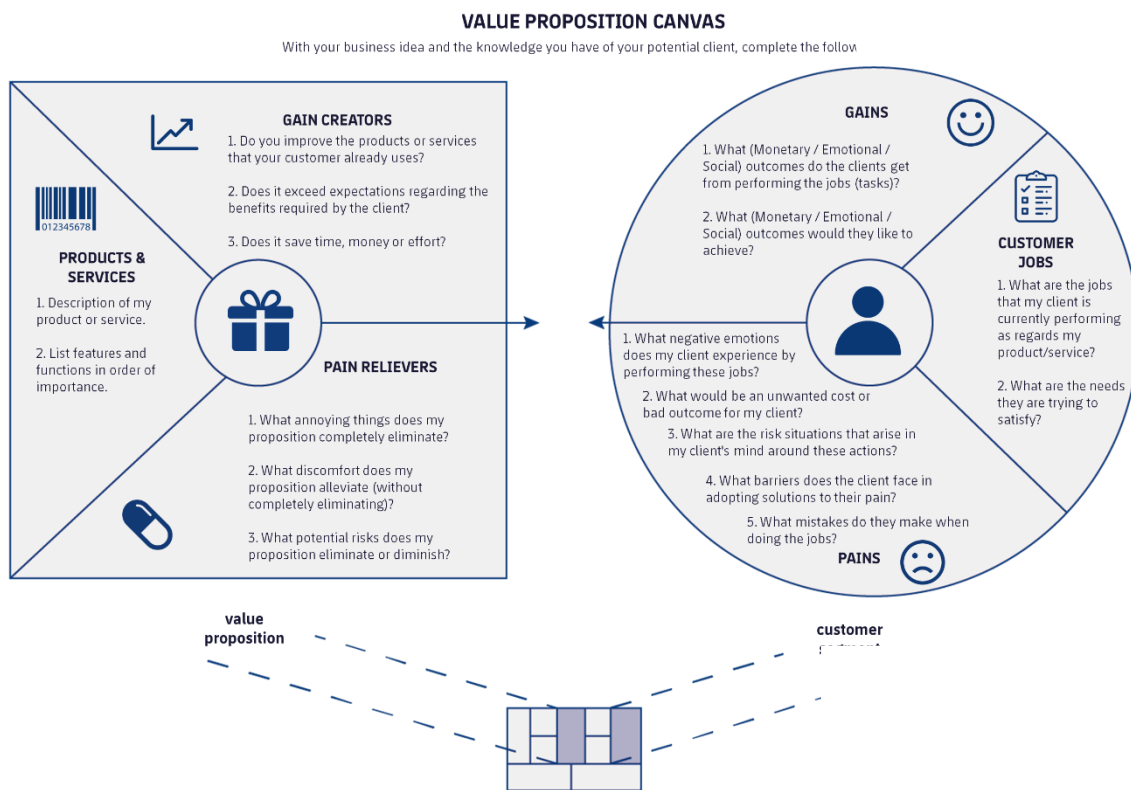
They can be based on...
Customer **acquisition**. Customer **retention**. **Boosting** sales.

The type of relationship influence the overall customer experience.

Source: adapted from Osterwalder, 2011.



Figure 3: Value Proposition Canvas



Source: adapted from Osterwalder, 2015.

In this revision of Canvas, what Osterwalder (2015) proposes is to zoom or focus on two of the blocks in the overall Canvas: zoom in the customer block and zoom in the value proposition block.

In this regard, the author suggests expanding the hypotheses in these two blocks by seeking a direct correspondence between the project's client and the value proposition, so that the opportunity is verified in the market and what does not offer value for the user or consumer can be eliminated.

Only after this correspondence in the market, which is known as problem-solution fit, has been verified is it sensible to move on to the other variables of the integral Canvas, a tool that will be explained in the following courses.

We will now consider these blocks in depth.



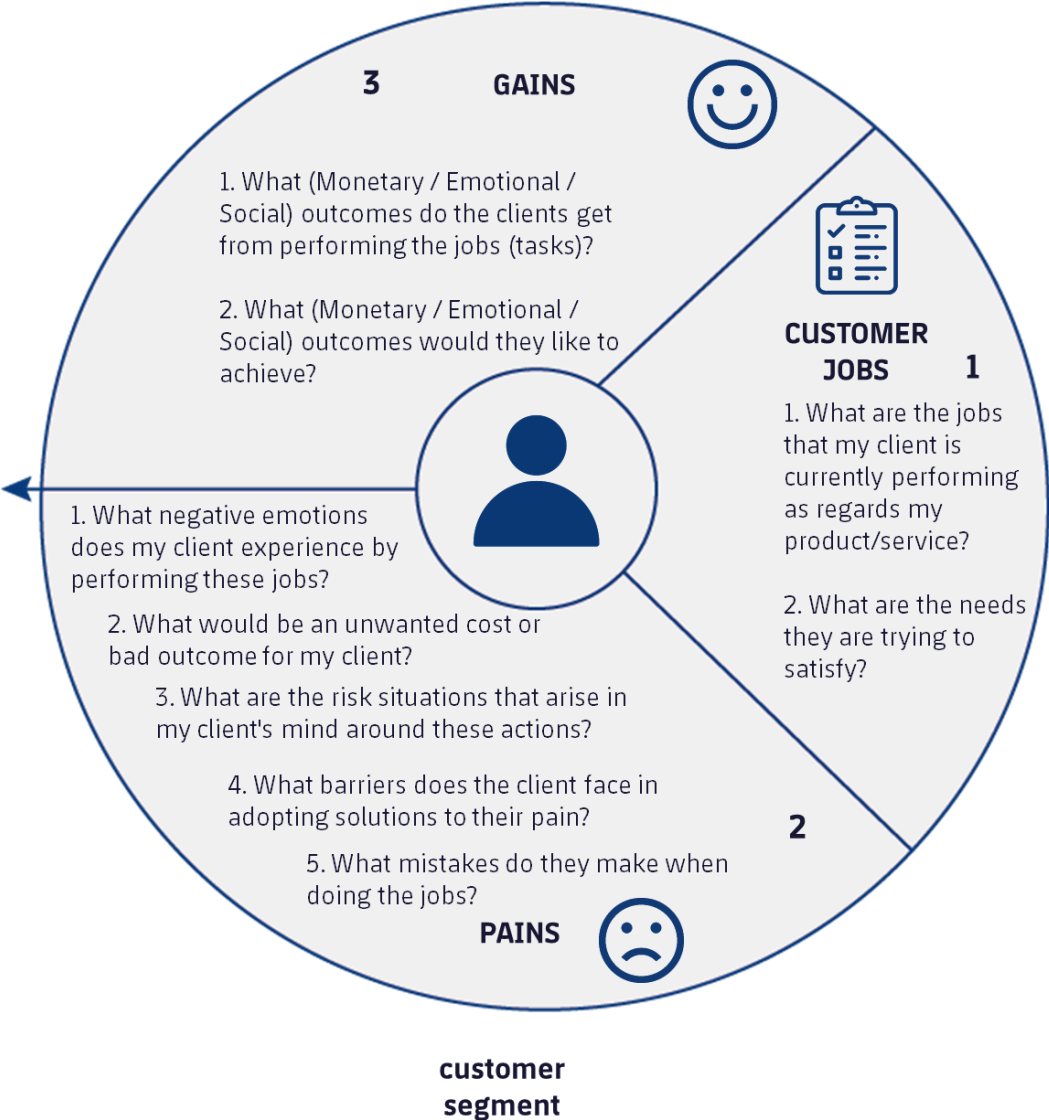
1.1.1 Observe your clients. Get to know them

We will start by describing the characteristics of the customer segment. Although the analysis can be done in different ways, we propose to analyze and complete the scheme in the following order:

First stage: Customer segment

1. Customer jobs.
2. Pains.
3. Gains.

Figure 4: Market segment composition



Source: adapted from Osterwalder, 2015.



Second stage: *Value Proposition*

1. Pain relievers.
2. Gain creators.
3. Product and services.

This second part will be developed later, since it is advisable to understand the client's needs first.

Coming back to the first point, Osterwalder and Pigneur (2011) define the market segments as the "different groups of people and/or organizations a company or organization... they are the center of any business model, since no company can survive for a long time if it does not have (profitable) customers" (p. 20).

Likewise, the authors state that, in order to increase the customers' satisfaction, it will be necessary to group them into several segments with common needs, behaviours and attributes.

Therefore, in order to develop products or services that are truly valued by customers, it is essential to know exactly what their needs and problems are. And, in order to do so, you will have to stop and observe who your clients are, their habits, customs, behaviours and motivations, beyond what they express they are needing.

In this regard, Osterwalder (2015) defines three aspects of the client that have to be completed on the canvas. These are the following:

1. **Customer jobs:** those activities or jobs that clients carry out depending on the products that you offer them. Therefore, following Figure 3, we recommend answering at least the following questions:
 - What are the jobs that my client is currently doing as regards my product/service?
 - What are the needs they are trying to satisfy?

This first part consists of completing the client's jobs, depending on each of their projects. You have to add all the steps that the clients (customers) perform nowadays to satisfy the needs or solve the problems they have with the product or service that are currently available on the market. At this stage, you should forget about your projects and think only about your clients.



If you consider that nowadays there are no substitute products or services on the market, write down the steps of how your potential clients satisfy their needs today. Describe this as detailed as possible.

It is worth highlighting that, based on the client's perspective, three types of jobs have to be differentiated:

- **Functional jobs:** they make reference to the accomplishment of a specific job.
- **Social jobs:** they make people look good, gain power or status. These jobs promote an image of how they want others to perceive them.
- **Personal or emotional jobs:** they favour the achievement of a specific emotional state such as feeling good, getting job security, living quietly, etc.

We share you some examples of jobs.

For a company that provides a solution for the tactical analysis of games through video, the job of the client, a game analyst who analyzes the opponents, could be the following:

- Leaving their home to go to the Sports City
- Defining with the coach the tactical concepts to be identified
- Watching different games
- Identifying the different patterns and cutting these videos
- Editing a final video with the different cuts
- Preparing a report with an adjacent analysis to the final video
- Presenting the report and the video to the coach
- Depending on the coach's feedback, preparing new forms of visualization for the players
- Delivering material to the coach to pass it on to the players
- Travelling with the team for the game

2. **Pains:** annoyances and frustrations that the client gets from the jobs.

As Figure 4 shows, at this point it is useful to ask oneself the following: What negative emotions does my client experience by performing these jobs? What would be an unwanted cost or bad outcome for my client? What are the risk situations that arise in my client's mind around these actions? What barriers does the client face in adopting solutions to their pain? What mistakes do they make when doing the jobs?

Based on these questions, we have to find out what annoys the client about all these activities, that is, if they are annoyed by the price, the waiting time, the way of payment,



etc., since each task can trigger a related pain or frustration. Once identified, some of these pains will be dealt with and others will not.

Continuing with the example of the solution of tactical analysis through video, the pains would be:

- The burdensome management that results from the large volume and weight of the material to be analyzed (videos)
- Highly manual work
- Inability to take advantage of travel hours with the team to progress with work
- Redoing reports according to players' needs
- Working on weekends with a football team dynamics
- Waiting for the coach and the players to correctly deliver the material
- Job instability subject to the continuity of the coach.

3. Gains: these are identified as the benefits that the client gets from performing these jobs. Following the scheme in Figure 4, the entrepreneur should first consider some of the following issues: What (monetary, emotional, social) outcomes do the clients get from performing the jobs? What (monetary, emotional, social) outcomes would they like to achieve?

Then, out of the above jobs, the gains could be:

- Competitive salary
- Football a sector that they like
- Access to a team dynamic
- Belonging to the group; positive working environment
- Potential high impact of their work on player and team performance

Once we have completed the right side of the canvas, we can move on to the next stage.

1.1.2 Assumptions about the client

As we have said at the beginning of the course, Osterwalder (2015) extended the integral Business Model Canvas tool to give priority to two fundamental elements of the business—the customer and the value proposition—, expanding the hypotheses about them, which will allow for the design of the appropriate products to solve the problems or satisfy the needs of the customers in the best possible way.



Therefore, until now, we have only worked on hypotheses and assumptions about what we believe the client needs, how and where they look for solutions, what they like, what frustrates them, etc. That is, our ideas that emerged from observation, but were not yet validated.

In this regard, Javier Megías (2013), co-founder of one of the largest communities of startups and investors in Spain, Startupxplore, states that...

The main objective of the previous points is to find a problem worth solving; therefore, we should order the jobs that the client needs to solve according to aspects such as the frustration these jobs produce them, the frequency with which they have to address them... etc. At the end, we will have a quite promising list of what, after observing the clients, we believe are their main needs. (<https://goo.gl/hYEVkw>).



Unit 1.2 Value Proposition

Once we have listed all the jobs and, associated with them, the pains and joys that these jobs generate to the client today, we enter the second stage of analysis, where we will think about the products that now do give an answer to the needs or real problems of our consumers.

Osterwalder and Pigneur (2011) define the value proposition as the "bundle of products or services that caters to the requirements of a specific customer segment. In this sense, the value proposition is an aggregation, or bundle, of benefits that a company offers customers" (p. 22). This means that it helps the client choose one company instead of another.

"For a business model to be sustainable, you have to know what value you are delivering to your customer, what needs it satisfies and what problems it solves."

Therefore, for a business model to be sustainable, you have to know what value you are delivering to your customer, what needs it satisfies and what problems it solves. More precisely, Osterwalder (2011) points out that the value may be quantitative (price, speed of service, etc.) or qualitative (design, customer experience, etc.).

For example, the same value proposition may have both attributes. Let's consider the example of a traditional gym:

- Quantitative value proposition:
Price: 49 € fee.
More than 1000 experiences in a single gym pass.
- Qualitative value proposition:
Choose your next challenge.
Train wherever is most comfortable.
Unlimited activities.

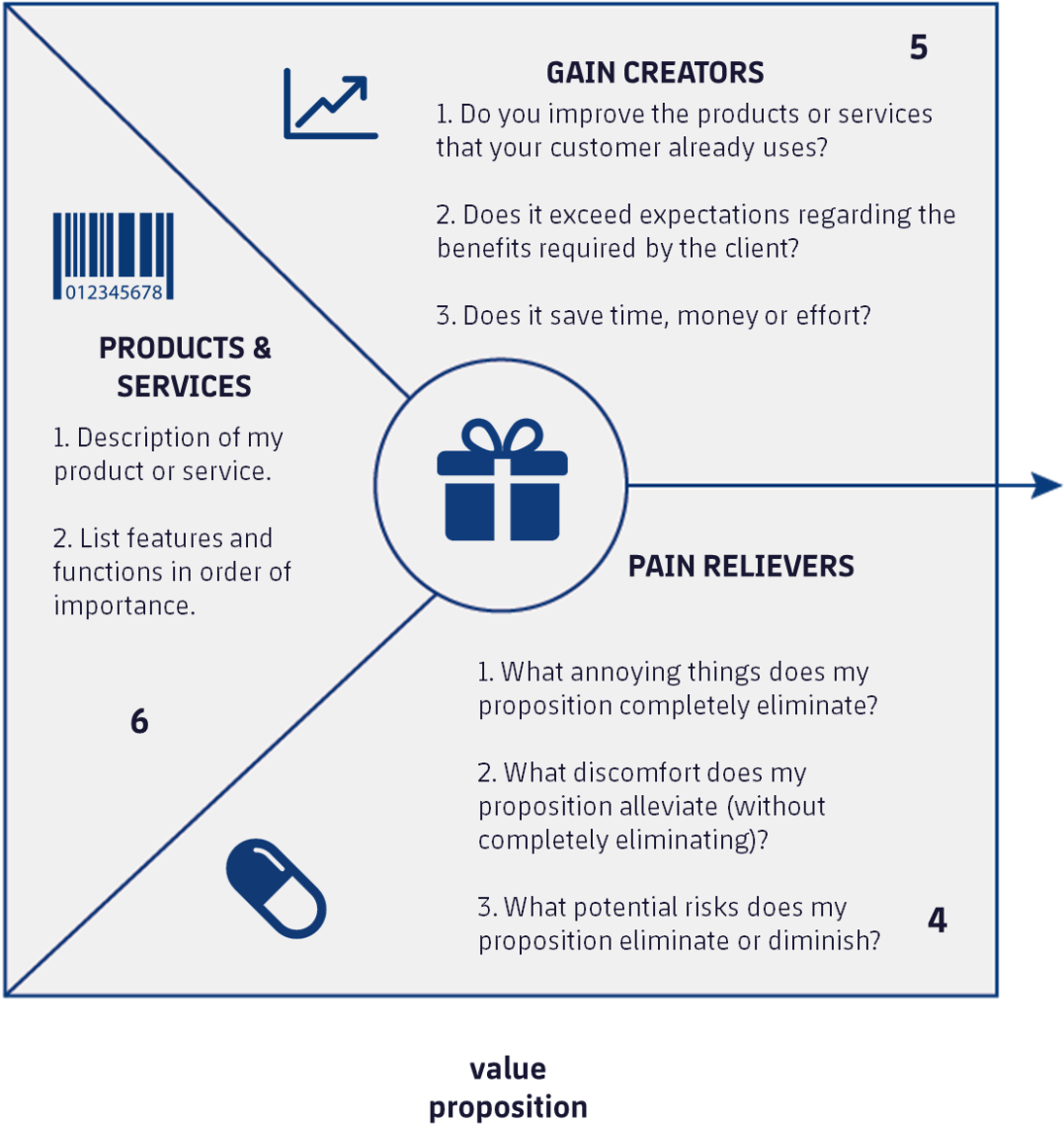
For this reason, designing a value proposition aligned with customer needs is not an easy task. Let's look at the components of the canvas in detail and start with the hypotheses.



1.2.1 Designing products with value

Let's see how to work on the left side of the scheme:

Figure 5: Composition of the value proposition



Source: adapted from Osterwalder, 2015.

Therefore, before describing the characteristics of the product, we should first address the pain relievers and the gain creators, because they will reveal the characteristics that the product has—or should have—to satisfy the customers.



So, let's consider how Osterwalder et al. (2015) define these factors:

- 4. Pain relievers:** they make reference to actions that serve to limit or alleviate the above-mentioned customer pains, that is, how your product solves the problems or satisfies the needs of your customers.

Following Figure 5, the questions to ask ourselves are the following: What annoying things does our proposition completely eliminate? What discomfort does our proposition alleviate (without completely eliminating)? What potential risks does our proposition eliminate or diminish?

For example, if one of the pains is the waiting time, a reliever of this pain to place on the canvas would be: *to decrease the waiting time.*

Continuing with the example of the beginning, if the solution of tactical analysis through video is capable of automating the identification of tactical situations through models based on artificial intelligence, we could define the following pain relievers:

- Decrease in the identification time of tactical patterns
- More flexibility in the possibilities of where the work is executed
- Increase in the speed of task execution in order to be able to adapt oneself more quickly to the needs of coaches and players

- 5. Gain creators:** they are the aspects in which your product or service helps the customer solve their problems or satisfy their needs, so they feel better and are happier.

These are some of the questions answered in this section: Do you improve the products or services that the customer already uses? Does it exceed expectations regarding the benefits required by the client? Does it save time, money or effort?

At this point, it is important to emphasize that we have to not only satisfy the clients' expectations, but also try to exceed them, providing the alternatives that the product already offers and also those that it could provide. Therefore, the options are expected to improve the current proposition.

Then, the gain creators for the mentioned tasks could be the following:

- Automation of the identification process of tactical patterns
- Automation allows for a greater speed when cutting videos and therefore it is more adaptable to coaches and players



- The possibility to work from home or during trips due to the improvement in the cutting speed of the videos.

The goal is that both of these options (pain relievers and gain creators) reveal not only the features that their products/services already have, but also many others that are not yet included and that could be incorporated to solve the customers' jobs, which have been analyzed in the customer segment.

6. Products and services: finally, it is necessary to identify the characteristics of your product/service by outlining a list of functionalities in order of importance.

Likewise, we should incorporate the functions that the product has to cover in order to respond to those jobs that our client needs to solve.

To conclude with the cited example, the product/service would be:

- Application that models tactical concepts and is able to identify them on a video.
- Software that allows you to work in the cloud but also in the computer's local storage when travelling.
- Application that includes video editing tools along with reporting tools.
- Includes the competition and work calendar.

In conclusion, the objective of this tool and, consequently, the objective of the preliminary stage of business validation is that the entrepreneur focuses on the problem-solution fit. With this view, we promote the design and creation of products/services that satisfy customers' needs or that solves real and tangible problems/needs that consumers have and that there is no waste of time in creating products as a result of falling in love with the idea or passion of the entrepreneur

We consider that our work as specialists in business creation is to make entrepreneurs focus on the problem they want to solve instead of the solution they will produce. Then, what needs to be rethought is whether the products we design to solve a problem are the best from a cost perspective or from a benefits perspective. That is, to define if the way we decide to solve that problem is the best one.

It is necessary to reconsider whether the products we design are the best way to solve the customer's problem.



1.2.2 Believing Does Not Mean Knowing

All we have proposed so far are hypotheses and assumptions about what we believe clients need and what they do to satisfy these needs. In addition, we have listed the characteristics of our products and their functionalities, which would solve the needs that have been detected.

But those assumptions are not enough to design the products or to complete the analysis of the business model you are defining.

To obtain certainty from these hypotheses, it will be essential to go out there to validate the product directly with the customers. In this way, not only will you get feedback from their look, but you will also be able to refine and redefine the your company's outlook and adjust the canvas to sustainable propositions for entrepreneurship.



References

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