

Business Model design

# CUSTOMER CENTRIC VALUE PROPOSITION DESIGN

10.11.2020

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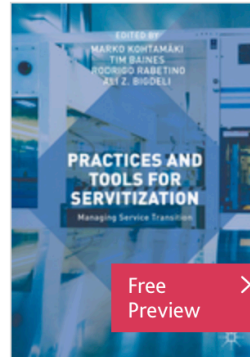
# LEARNING OBJECTIVE

Identify the theoretical link between (user-driven) design (previous knowledge) and value proposition development process; Perform the systematic value proposition design process

# ARTICLE PREREADING

Töytäri, P. (2018). "Selling solutions by selling value" in *"Practices and tools for servitization."*

- What did you learn by reading the article?
- Discuss the article in your breakout room for a few minutes
- Prepare to share your thoughts



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## Practices and Tools for Servitization Managing Service Transition

Editors: **Kohtamäki, M., Baines, T., Rabetino, R., Bigdeli, A.Z.** (Eds.)

Covers theoretical and practical approaches to servitization  
Includes contributions from top scholars in the field  
Provides tools and frameworks to facilitate servitization within companies



**Good job, Pekka!**

Your chapter reached 2,500 reads

Achieved on November 2, 2020

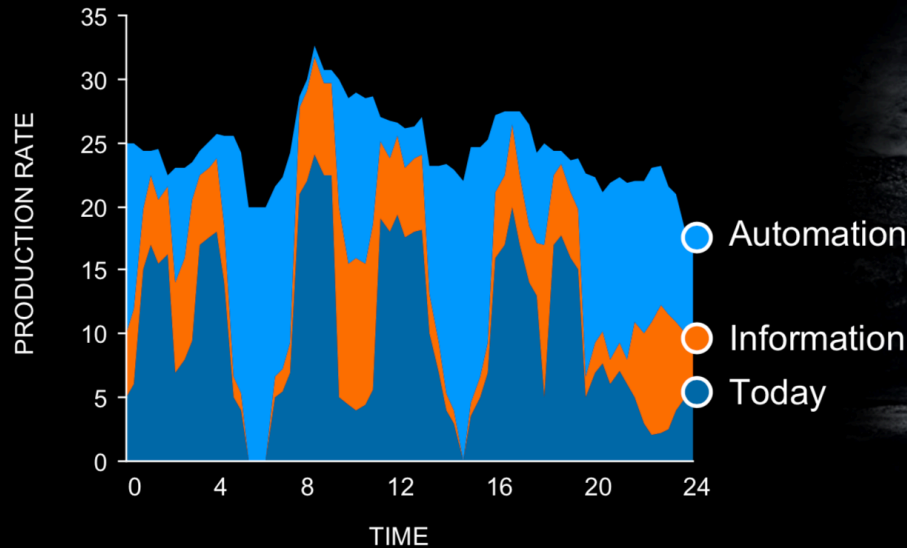
Chapter: Selling Solutions by Selling Value



# *EXAMPLES* of value communication

# THE IMPACT OF DIGITALIZATION AND AUTOMATION ON PRODUCTIVITY

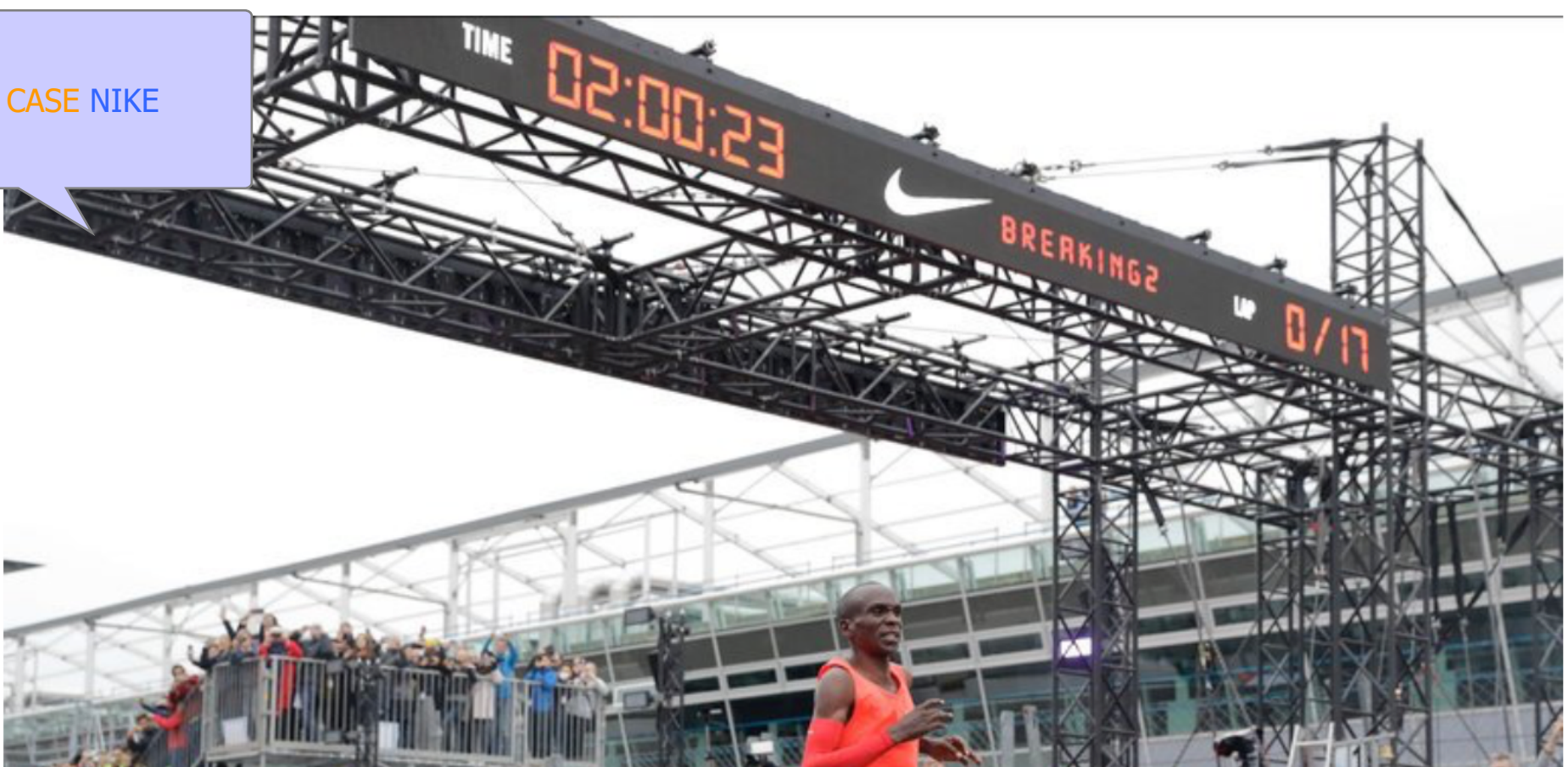
## MORE, LOWER-COST & SAFER TONNES WITH INFORMATION AND AUTOMATION



Sandvik DD422iE

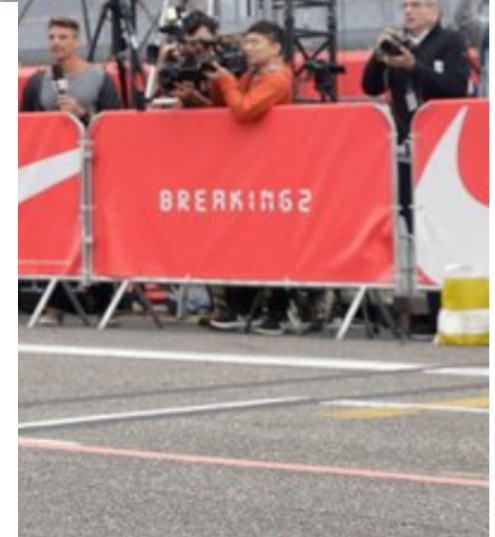


CASE NIKE



Kipchoge, Desisa and Tadese wore customized lightweight shoes with a carbon-fiber plate that some scientists believed gave the runners an unfair advantage because it effectively acted as a spring.

But the rules about shoe design set forward by the I.A.A.F. are extremely vague, and Nike says its shoes are in compliance. The customized shoe worn on Saturday reduces by 4 percent the energy needed to run at a given speed and helps to reduce fatigue, the company said.



CASE  
OUTOTEC  
FLOTATION

# VALUE COMMUNICATION EXAMPLE

VALUE OF EXTRACTED METAL

VALUE OF EXTRACTED METAL

ENERGY COST

ENERGY COST

MAINTENANCE COST

MAINTENANCE COST

EXISTING PROCESS

NEW PROCESS

Increase of copper recovery by 1% equals to of **2Meur increase** of sales revenues

50 % energy decrease equals to **100keur decrease** of utility cost

50% life time decrease equals to **50keur saving** of maintenance expenditure

# DISCUSSION

Spend few minutes by analyzing these value communication examples and post your findings through chat:

- *What are the building blocks of value communication?*

We will then jointly come up to a definition of a value proposition



CUSTOMER

SUPPLIER

GOAL

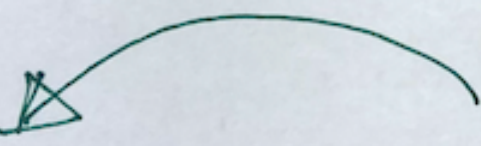
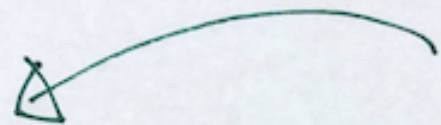
IMPACT ON GOAL

NEEDS

"BUNDLE OF BENEFITS"

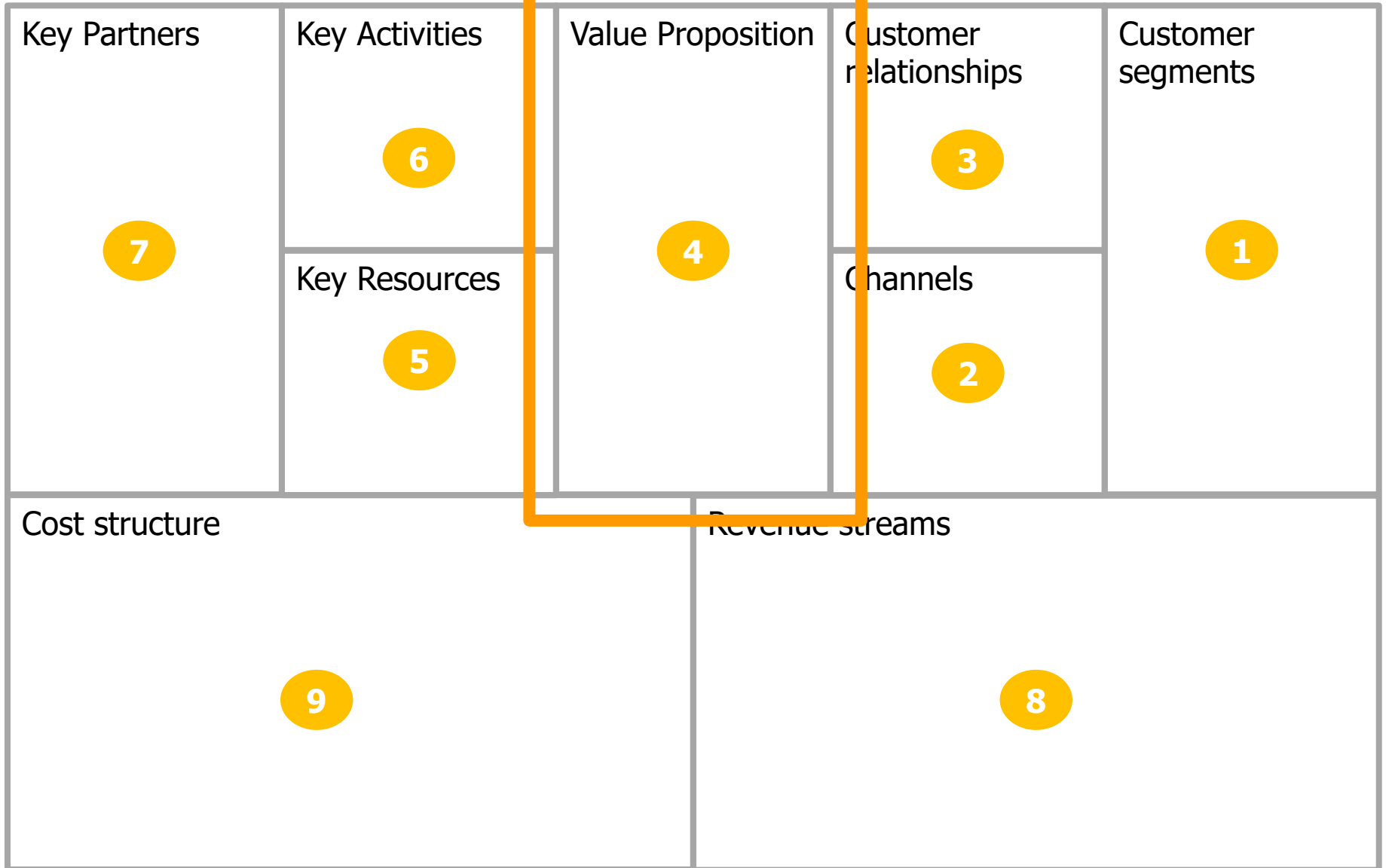
VISION OF SOLUTION

SOLUTION



*WHAT* is value?

# VALUE IS AT THE HEART OF BM



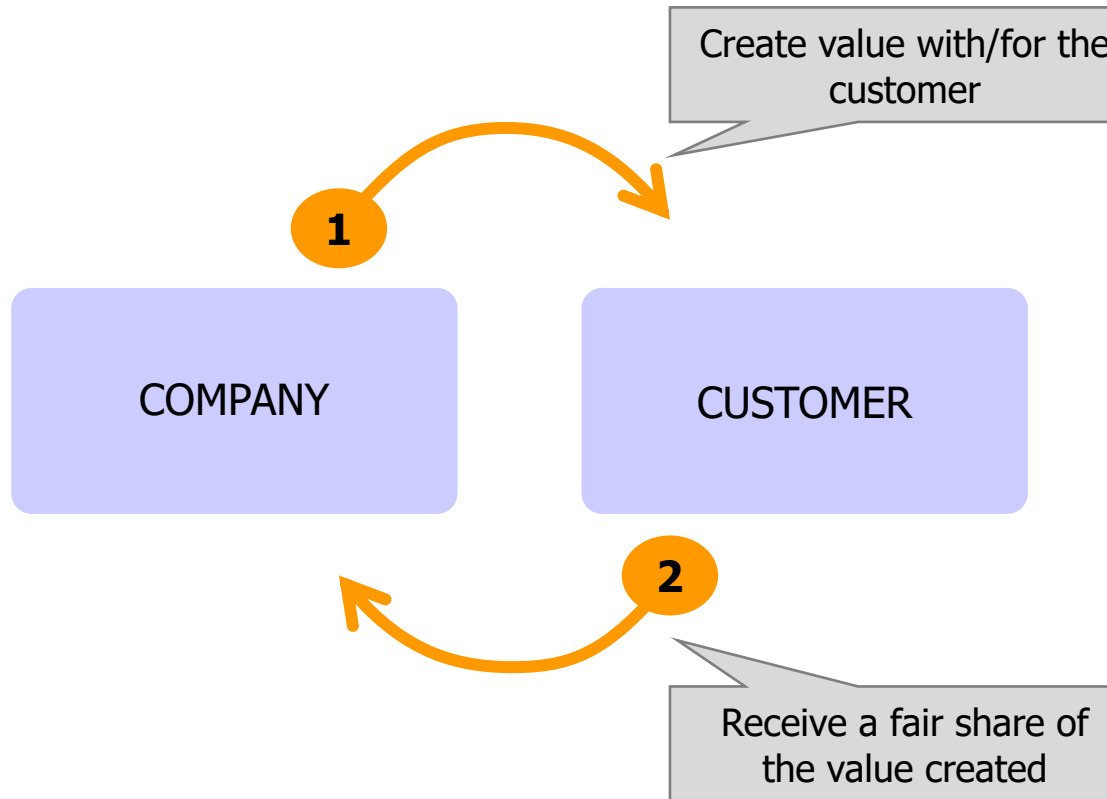
## VALUE-BASED EXCHANGE

“Value is what I get for what I give”

Zeithaml, 1988

# VALUE EXCHANGE

*"Any voluntary decision to transact requires that both parties perceive value = benefits – sacrifices > 0"*



CASE KONE  
CTU SOLUTIONS

# RESEARCH AND INNOVATE

“Getting workers and goods safely to the right place at the right time”

## LESS WAITING

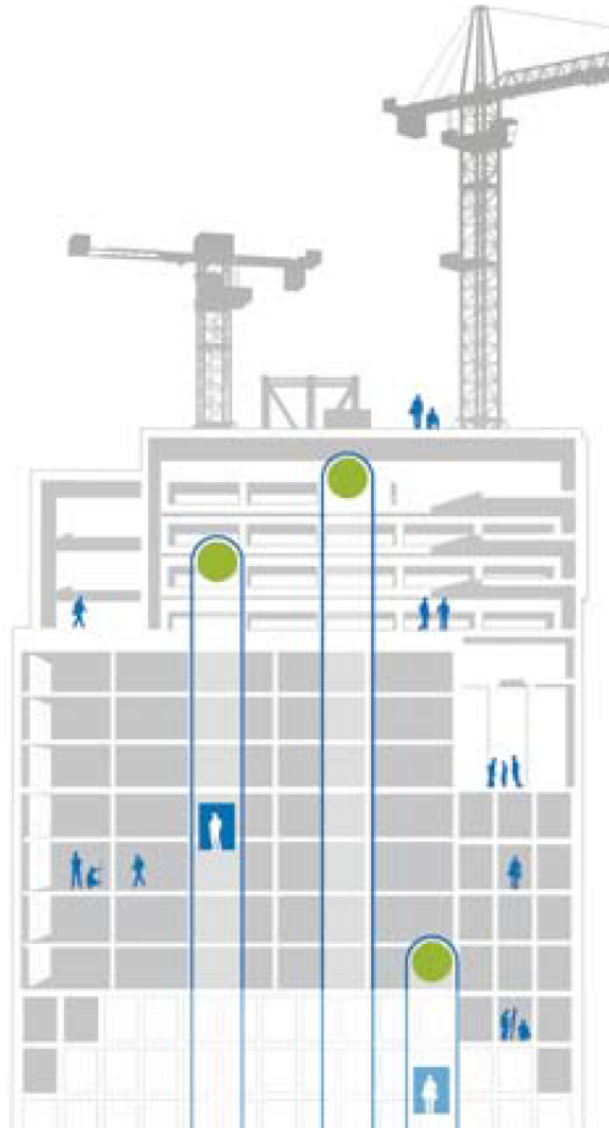
Faster transportation than with exterior hoists

## CUT ENERGY COSTS

Better energy efficiency than with exterior hoists

## REDUCE DOWNTIME

Maximise availability



## LESS CONSTRAINTS

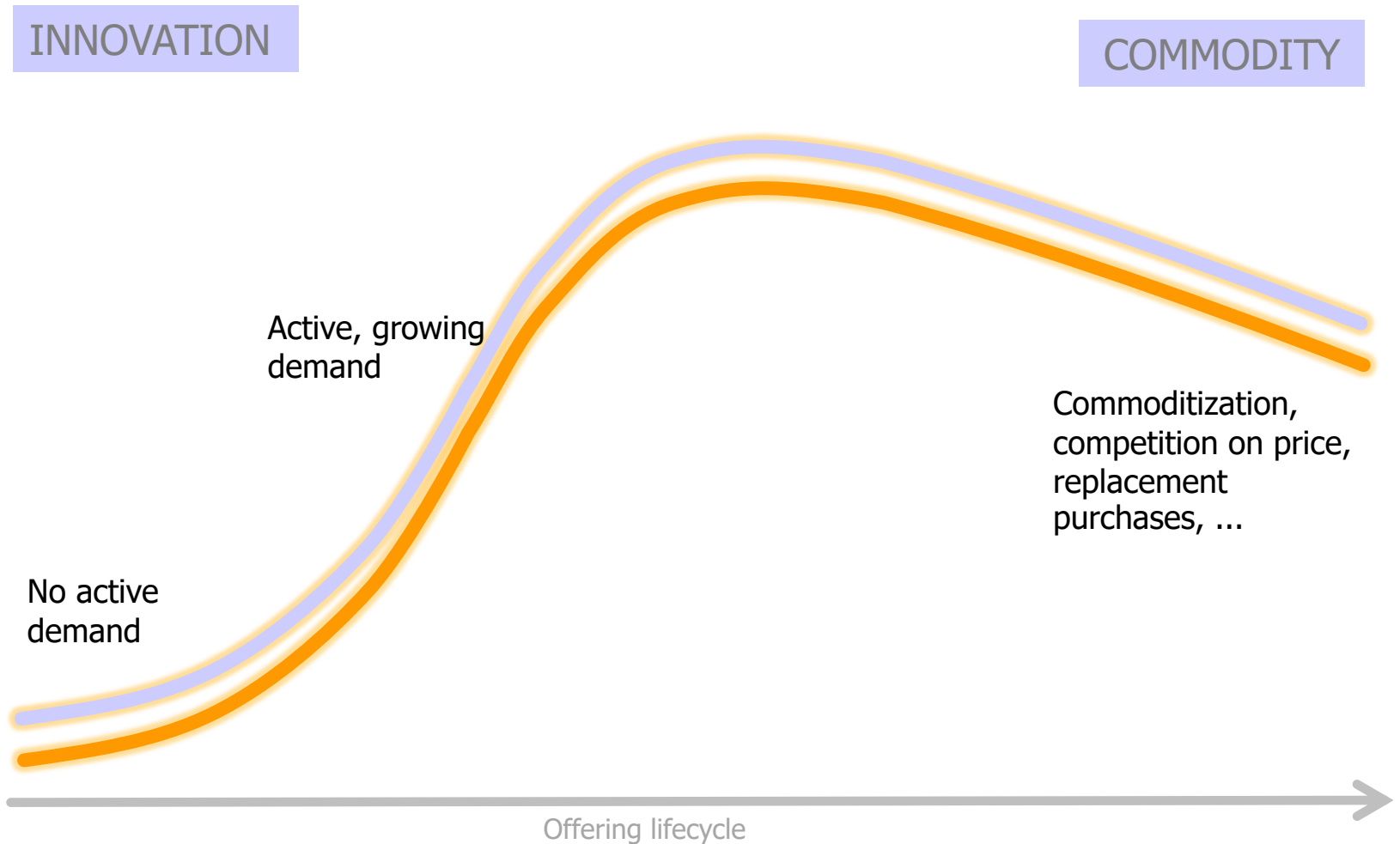
Façade of the building can be closed sooner for weather protection and concurrent construction work

## RESULT:

SHORTER CONSTRUCTION TIME

*WHY* value?

# COMMODITIZATION LEADS TO ZERO PROFIT



## EXERCISE

How are profitability, buyer/seller power positions changing over time?



## CHALLENGE:

→ Need to differentiate by innovating

CASE Siemens



Re-energise your kitchen  
with Kitchen Stories.

Introducing the new culinary partner of Siemens Home Appliances, Kitchen Stories. Experience Kitchen Stories recipes created with your Siemens home appliances.

## Creativity meets technology with Kitchen Stories and Siemens.

Founded by hobby chef Mengting Gao and cooking novice Verena Hubertz, Kitchen Stories inspires food lovers all over the world to cook and connect – via app or website. The Kitchen Stories platform is not only about great recipes but also offers practical kitchen tips and informative food articles. Combined with Siemens' innovative home appliance features including varioSpeed and coolStart, Kitchen Stories will boost your passion for fabulous food.

# FROM PRODUCTS TO SERVICES

*"SKF, a bearing manufacturer, has integrated value-added services like condition-based maintenance effectively into its wind solution, thus transitioning from a traditional bearing manufacturer to also monitoring windmills as a service with the data gathered on the bearings, helping its customers boost turbine performance and profitability."*

→ RE-ALLOCATION OF ACTIVITIES BETWEEN SUPPLIER AND CUSTOMER

## CHALLENGE:

→ Innovations require convincing evidence of business value

WHY?

CASE  
PAPER MACHINE  
MODERNIZATION

# VALUE OF MODERNIZATION

Scenario 1	Current	Improvement Target	Production	Additional revenue	Energy savings
<b>Speed</b>	695 m/min	57 m/min	+22 000 tons	+ 3 200 kEur	-
<b>Breaks</b>	5,1%	1,0%	+ 3 000 tons	+ 440 kEur	+ 160 kEur
<b>Steam consumption</b>	16 kg/s	0 %			0 kEur
<b>Electricity consumption</b>	19 MW	-200 kW			- 100 kEur
<b>TOTAL</b>			+ 25 000 tons	+ 3 640 kEur	+ 60 kEur
<b>ESTIMATED BENEFITS PER YEAR</b>					<b>3 700 kEur</b>
<b>INVESTMENT</b>					<b>4 000 kEur</b>
<b>DISCOUNTED PAYBACK TIME</b>					<b>14 Months</b>
<b>Production line data and calculation parameters</b>	Operating days 355 per year	Average grammage 152 g/m <sup>2</sup>	Trim width 6,1 m	Speed 695 m/min	Calculated current production 263 000 tons per year
	Unplanned shutdowns 4,0%	Planned shutdowns 2,0%	Breaks 5,1%	Broke 10,0%	
	Electricity cost 60 Eur / MWh	Steam cost 25 Eur / MWh	Cost of capital 10,0%	Gross margin 150 Eur/ton	

1

2

3

*HOW* are value creation opportunities  
discovered?

STEP 1:

Selecting right customers

Our customers' characteristics are diverse and our development must match them

**OUR INDUSTRY'S COMFORT ZONE**

Supplier  
Transaction  
Standardization  
Cost focused  
Product spec

**NEW GROWTH AND PROFIT OPPORTUNITIES**

Partner  
Co-creation  
Differentiation  
Value focused  
Life cycle impact

**MDD**

MANUFACTURING  
PERFORMANCE



STEP 2:

Understanding what customers do and  
how



CASE  
KONE & HILTI

# FROM CUSTOMER INSIGHT INTO PARTNERSHIP

The relationship between a vendor and a customer can be quite remote, if the vendor's share of the customer's purchases is not very significant. Hilti (supplying assembly parts for KONE) decided to invest in better understanding the elevator installation process and challenges, and to bring added value to KONE by innovating improvements into the process.

Hilti arranges workshops to discuss the daily routines of the technicians. Hilti also visited jobsites to take photos of the different stages of the installation process, and interviewed quality managers about the installation training key points. Their findings were summarized and connected to the strategic business **drivers** and **goals** for KONE (found in their annual report). Hilti recognized **the installation efficiency** as one of the biggest obstacles, and was able to demonstrate solutions based on their earlier analysis.

The procurement function of KONE was involved already at the early stages of the process, but selling the idea was initially directed towards the country organizations. Hilti knew by experience that to get to the strategic agenda of the top management required local success stories, that can be replicated to other countries. Internal resistance was lowered by involving the procurement function already at the early stages of the process.

KONE was surprised by the level and impact of the analysis by an outsider. As an end result, 7 of the 9 business units of Hilti were included in the elevator implementation processes.

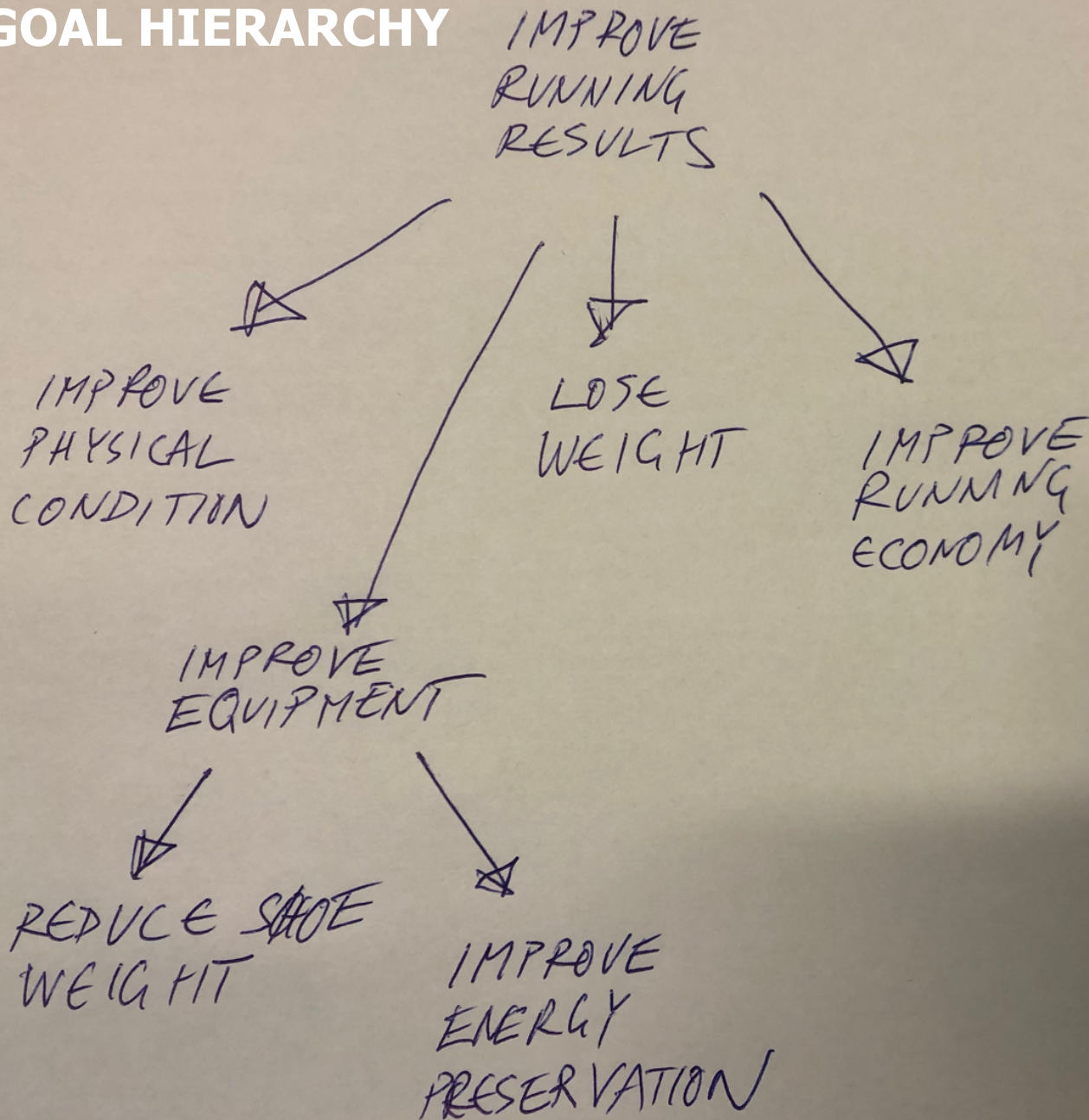
Source: SAMA Pan-European Conference, 10-12 February 2008. ■

## STEP 3:

# Understanding customer goals

*"The only way to influence people is to understand what they want and show them how to get it" – Dale Carnegie*

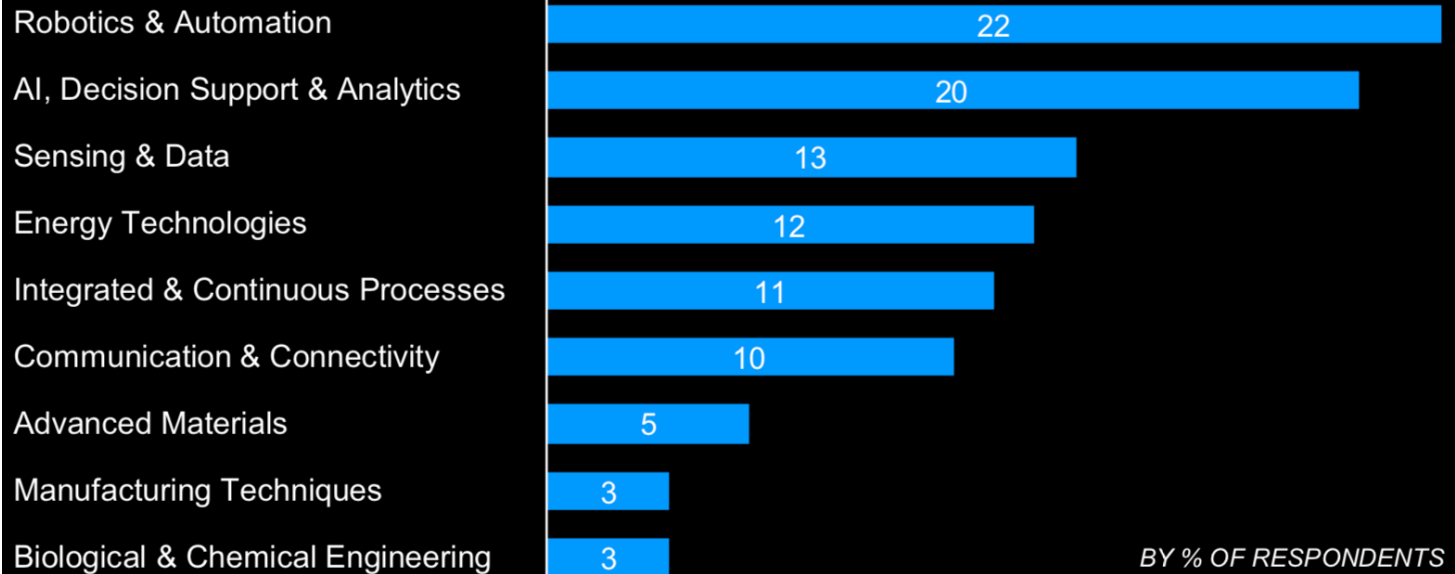
# GOAL HIERARCHY



There are always timely & critical business challenges the customers strive to manage

## TIMELY CHALLENGES

### WHAT TECHNOLOGY AREAS WILL HAVE BIGGEST IMPACT NEXT 15 YEARS?



STEP 4:

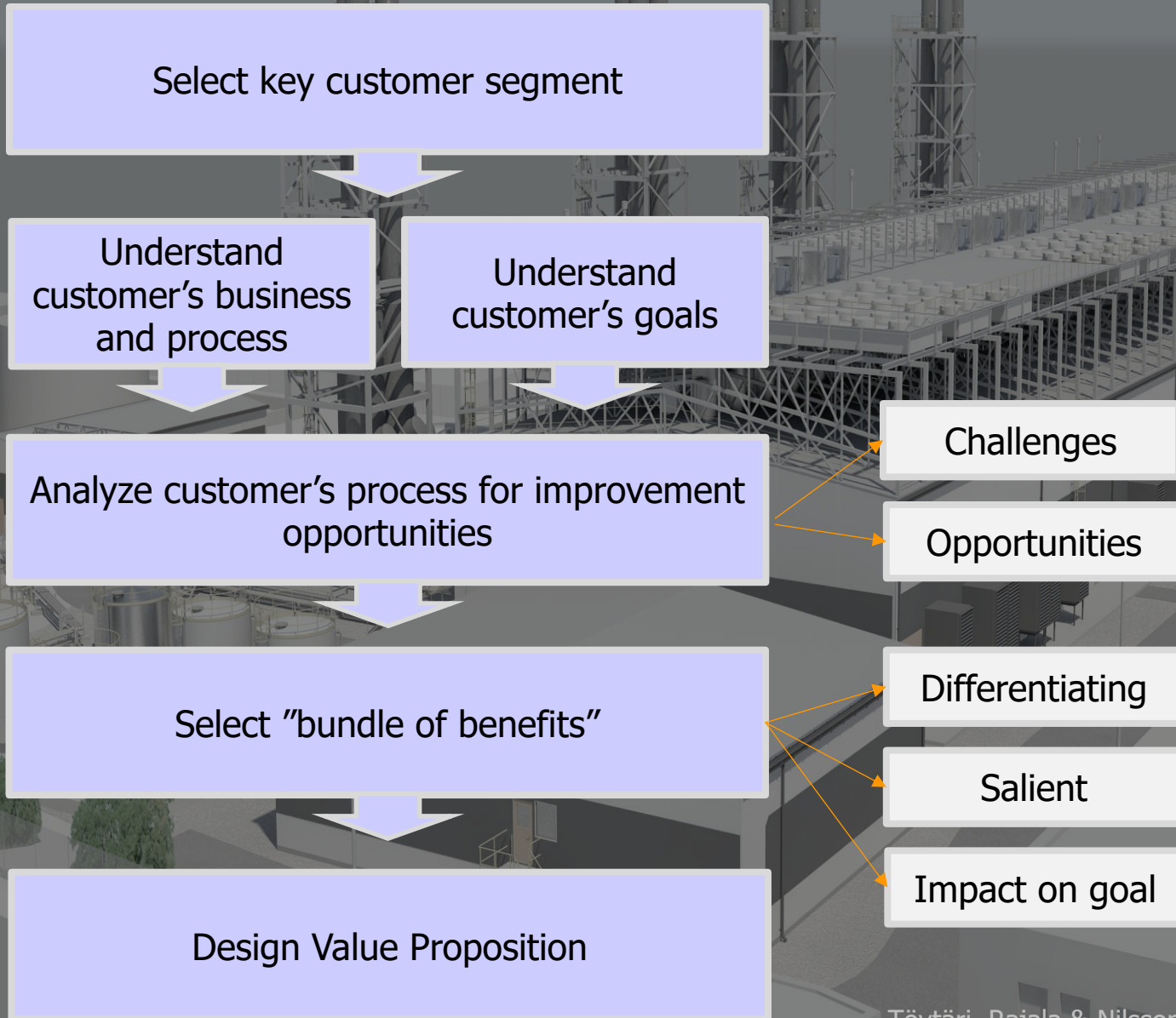
Designing value propositions

*What* GOAL?

*Which* BENEFITS?

*What* SOLUTION?

# VALUE PROPOSITION DEVELOPMENT





# VALUE PROPOSITION TEMPLATE

This template gives a handy tool for describing a value proposition.

## Value proposition *template*

This tool summarizes elements of value communication: What goal do we believe the key person is striving for, what is our solution, and what benefits does the solution deliver?

\_\_\_\_\_, who wants  
Key stakeholder

\_\_\_\_\_  
Stakeholder goal

\_\_\_\_\_  
Our solution

helps

\_\_\_\_\_  
Benefit 1

\_\_\_\_\_  
Benefit 2

\_\_\_\_\_  
Benefit 3

EXERCISE

# GROUP ASSIGNMENT

Analyze the value proposition development process in your group:

- *What is your opinion of the process?*
- *How would you compare the process to design thinking?*
- *Any observations that you would like to share?*

Prepare to discuss!