

TEI 123: A product management view of Value Proposition Design

Host: Chad McAllister, PhD

Guest: Alex Osterwalder, PhD

CHAD: Hi, this is Chad, your host. And this is where product managers learn to be product masters. Each week I discuss topics important for product managers and innovators, interviewing incredible guests, and today's guest is a person I have been eager to talk with. You likely already know him as the inventor of the Business Model Canvas -- a one-page business model -- and author of the related book *Business Model Generation*. He is also the winner of the prestigious Thinkers50 Strategy Award, winning in 2015, and also is ranked as the #15 most influential business thinker by Thinkers 50. Further, in 2013 he won the inaugural Innovation Luminary Award by the European Union. He more recently co-authored the book *Value Proposition Design*, which in a way, is the topic of our discussion.

However, I didn't want to ask him the same questions he has been asked a hundred times that you can find in other interviews. Instead, I asked him to discuss the book from the perspective of a product manager -- identifying the need for the book, its target market, the value it creates for customers and for his organization, as well as how the name was chosen. So, you not only get some insights into what Value Proposition Design is, you also get to see the book as a product and the product management thinking that went into its creation.

If you are new to Value Proposition Design, think of it as the third leg of a stool consisting of Lean Startup and Design Thinking as the other legs -- all three are similar in intent and each provides valuable tools, arguably with Alex's tools being most valuable to product managers who think like product leaders -- or in my words, product masters.

You'll find the summary of the discussion and other helpful resources at www.TheEverydayInnovator.com/123.

There is a little room echo in the interview, but nothing that's distracting. I so enjoyed this interview and hope you do also.

[2:16]

CHAD: Alex, thanks for joining the Everyday Innovators.

ALEX: My pleasure. Thanks for the invitation.

CHAD: I'm so glad to be talking with you. You've done so much to just help product managers and business leaders in general, with what you've done with the business canvas. Kind of introduced the world to this notion of canvasses. Like all of a sudden all these other canvasses popped up in the world, right? Which was a really unique sort of thing to have happen there. Specifically, I wanted to talk about one of your books, *The Value Proposition Design*, but I want to do it from the perspective of a product manager having created this book. Could you go through a little bit about just what was the context for this, what was going on at the time and inside your company, Strategyzer, that needed this book to come about.

ALEX: There were a couple of triggers. The first one was that *Business Model Generation* was pretty successful and a lot of people started using the business model canvas and we designed the business model canvas to help people think about their business model. What we didn't realize is that some people were misusing, if you want, or repurposing the business model canvas to sketch out their value proposition and the business model canvas was never designed to help with that particular job to be

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done, right? The only job to be done was how can I sketch out my business model. We thought, well, there could be another tool that would go hand in hand, it would be like a plugin, with the business model canvas, so we tried to figure out what would that other tool be. We started out with thinking what if we did a tool on jobs to be done? In the end, we ended up with the value proposition canvas because we realized that's actually the missing tool and the jobs to be done concept was kind of a core or part of that value proposition canvas. So that was the origin of the tool. I'm a big believer in business people using several tools together and integrating them, rather than trying to say, "Oh, you know, there's this Swiss army knife that does everything." You don't want your doctor to perform heart surgery with a Swiss army knife. So why do we think in business we need one conceptual tool that's going to solve everything, right? Metrics, strategy, implementation, doesn't work that way. So you need to use several tools. So for us, that second tool, the value proposition canvas, was an important one. It's like zooming in. Business model is the big picture perspective, you zoom into the value proposition, you get more detail on that. So that was the foundational trigger, I'd say. The other trigger was that we learned so much over the year since we launched *Business Model Generation* that we had a huge need to share and to integrate, actually, with Steve Blank and Eric Ries' Lean Startup concepts, in the customer development from Steve Blank who launched the whole thing. I'm a big believer, as I said, not just using other people's tools if they work, but also processes that are established.

[5:17]

ALEX: So in the second book we integrated the whole customer development and lean startup approach. So, building on other people's work and integrating, showing how you can integrate this. The third trigger was that we just launched the Strategyzer brand, so we moved away from *Business Model Generation*, which was a book, towards now having a company with a name, Strategyzer. We thought, well, if we write another book and we put Strategyzer on the cover as the company providing this book and then we obviously also put Strategyzer on the old book, *Business Model Generation*, that would put Strategyzer as a brand, on the map. It really worked, because we sold 100,000s of copies of the second book in addition to then we already had over a million in the first book, so it really put the brand Strategyzer on the map and it allowed us to shift from business models to a more general brand. Those were the three big triggers for us, among a lot of other smaller triggers.

CHAD: Thanks for laying that out. As you were talking about the different tools, using one big tool versus small tools, the image that came to my mind, the first time I visited Japan, it was really a big contrast to me. Here in the United States, you're over in Switzerland, I'm not sure what it's like there, I haven't been there yet, but in the US, whenever there's a construction site, these really big earth movers and bulldozers, Caterpillar, typically, sometimes John Deere, makes this huge construction equipment. Over in Japan, the same construction sites for commercial buildings, there would be like a dozen of these little purple excavators. In the US, they're the size of what we might call a Bobcat, just one of the one-person little digger things that aren't much...they're like the size of a car. They just use so many different tools instead of these really huge big tools. That's what I think of when you talk about let's slice up these problems with smaller tools that fit for the exact problem that we need to get done.

ALEX: Right. I really like to frame it as business job to be done. I need to sketch out the business model for this particular idea or this particular improvement. I need to sketch out the value proposition for my customers. I need to sketch out how I'm going to implement this project. So I think for every important

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business job to be done, that a manager or entrepreneur has, we should have specific tools and then we pull them out of our toolbox whenever we need them. I don't think that culture exists as much as it should, so far. It does in engineering and IT and increasingly it's coming to business as well. In Finance and Marketing we've had those tools, and Accounting. You don't just make up accounting every day, so why should we not have some more professional tools in innovation, entrepreneurship and product management. I think this is really a growth area where people are starting to use more tools, in particular, in strategy, innovation and product management.

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CHAD: You said one of the key reasons for this was as you did the business model canvas, people were kind of misusing that in the sense of applying it to generate a value proposition also. You looked at maybe going down the path of jobs to be done. I'm curious about that. Can you just tell us a little bit more about how you saw jobs to be done fitting into answering that problem?

ALEX: Yeah, well, I was doing a lot of workshops at the time and coaching some teams and senior executives around the world in large, established companies. One of the tools I like to use to get them customer focused was jobs to be done. So building on Tony Ulwick work and what Clay Christensen promoted, his team, and I was doing some interaction with Innosight at the time, Clay Christensen's consulting firm, in particular with Mark Johnson, and I thought, well, you know, we have this tool, business model canvas, which works really well and we knew, because we did some research, we knew why it worked well, because it was visual, simple, practical and could be used in a business meeting as a design tool. So I thought, well, jobs to be done is an interesting concept, but nobody's really turned it into a tool yet. It stayed (in quotes) at the level of a concept. So we started out there saying, okay, what if we could design a tool for that, building on all of the existing work, as usual, from Tony Ulwick and others. But then, going beyond that and saying how would a tool look like? Because we understood the value of business tools, which for me is different from a concept, which is more theoretical. What we ended up with, trying to design a tool for jobs, is we ended up with a slightly broader tool around Value Proposition Design. So the way I like to frame it is, the business model canvas helps you explicit how you create value for your organization. How you create, deliver, and capture value for your organization. The value proposition canvas helps you make explicit how you create value for your customers. Obviously, to succeed in business you need both, right? Just creating value for your customers and going bankrupt doesn't make a lot of sense, and turns out, there are companies that sell stuff and they'll go bankrupt. So their successful from a sales point of view, but not from a business model point of view. The other way around, you have companies with business models where the value proposition expires and they haven't tried to reinvent themselves and they have to come up with new value propositions. So these are just two tools, but very central ones, obviously, in the equation of how do I create a profitable and scalable business.

CHAD: Right. That business value expiring issue just happens, because the business environment's constantly changing. Kodak is probably one of the bigger, notable examples of their business model having to change and they did not keep up with the changing times. We need these tools to reevaluate.

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ALEX: If you'll allow me to build on that, because I think your pointing to something very important. I like to say business models expire like yogurt in the fridge. Same for value propositions. My coauthor Yves Pigneur likes to say, "Yeah, that's right. But the advantage with the yogurt is you have an expiry date. With the business model, you don't." I think what we're observing now is that business models and value propositions expire faster than ever before, which means companies now, it's not enough anymore to just create better processes and cut down the costs and be more lean and do better what you've been doing for very long, because you can't cost cut yourself to the future, right? Through cost cutting you won't create new growth. You'll be leaner, but you won't create new growth. So, companies need to figure out how can they systematically create new growth engines. Not just entrepreneurs with new startups, but how can you create that same kind of growth dynamic in companies? So it's really, really important, and that's the challenge that companies are facing.

CHAD: That is, I want to make sure listeners understand that that is the extent of this book, also, that it's...we'll get back to this in a moment, but it's not just how you create a value proposition. This is a design system, a design methodology. So, putting our product management hat back on, looking at it from that perspective, so you had a product out, you're doing these workshops around the business canvas model, saw the product wasn't always being used the way that you intended, that there was another opportunity here. Product managers, we run into that all the time. That's what we like to see. We like to see we've created another issue for customers that we can solve for them. We've identified that for them. You mentioned, then, the value that this created the company a little bit. We always have to look at both sides, right? Does this make sense for our customers and does this make sense for us to do it, too, as an organization. You said it was coincidental with creating the Strategyzer brand, an opportunity to capture on that. Other elements of value there that it created for the organization?

ALEX: Yeah, so maybe just a step back. What was our original vision for Strategyzer? And that hasn't actually changed. We always believed we could create kind of the SAP of strategy, or the strategic operating system. So we always wanted to build the enterprise software that would help senior leaders manage strategy, manage innovation, and create new growth engines. So we thought, well, we can do it for operations with Oracle, SAP, etc. Why can't we do it for strategy? So it's like strategy support tools, computer-aided design for strategy. So that was the original vision. It goes all the way back to my PhD, which I did on business models. That was the idea, that we could create that. We started out with an iPad app that was our first prototype, before we called the company Strategyzer. Then we moved towards a web app. That's when the brand Strategyzer kind of something we wanted to make a bit more popular and we wanted to give it some visibility. So that's why we launched the new book.

[14:14]

ALEX: Ultimately what we learned over time, how do we get towards that vision, we have three pillars. One is the tools and the concepts and the content. How do we help people, business people, better solve these jobs to be done? How do they create business models, value propositions, etc.? You do that with the right tools, the right processes, and we teach it to them with content. That's the first pillar. I like to call it sometimes the Harvard Business Review of the 21st Century. More practical, more visual, more applied than Harvard Business Review, but without kind of dumbing down the content. The second pillar is the platform, where I really think you can't do strategy systematically and innovation systematically and test things systematically if you don't have software support, if you don't have tools.

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It's like computer-aided design helped architects, engineers, and ultimately also software engineers, work in a very different way. Think of Frank Gehry one of the famous architects of our times. It was with computer-aided design that he could come up with amazing new buildings that would have fallen apart if they had just made study models by hand. I think the same is going to happen in business models and value propositions. If we have computer-aided design that helps us come up and test better business models and value propositions, then we're really onto something. It's support to the human creativity. It enables more creativity by helping us systematically test, just like we test buildings. That's the second pillar. The third pillar is the services that we offer, because we did learn and we kind of learned this the hard way, that this is a market that doesn't exist. People don't use software to design and test strategies and business models in companies. So we needed to kind of build a consulting arm that would help them understand the tools and the concepts, and we use their online learning a lot, and that would show them how to do this in their organization, so typically now, to mention two examples, we have wonderful companies that are using this. The two that I can publically mention because they're on our blog, is WL Gore, that makes Gortex, they're really doing this and reinventing business units and creating new growth engines. On the other hand, MasterCard, the credit card company, which spread these tools, the business model canvas and the value proposition canvas to over 15% of their employees now. So they're using this as a shared language. So those are the three pillars of Strategyzer. Ultimately, our goal is to help business people do a better job. It's as simple as that.

CHAD: That all ties in well. There's a lot of foundational thought that went into, not just here's another book we're going to do, this is the next step in some evolution or growth. But you really created, in some sense, a canvas, this framework of the three pillars, to structure the future of the company and how this then contributes to that as aiding all those elements but really being a key part in terms of there's a tool now for people to get their hands on and it describes a process that we use and now apply it to your organization and what you need in terms of business models and value propositions. Good. Okay, thanks for going through that. So, next question a product manager might ask is who is this specifically focused to. We look at our ideal customer and our target markets. You mentioned a couple companies in passing, too, but how do you frame out that target market perspective for these kinds of tools, these offerings?

[17:52]

ALEX: So, for us, there are several segments that we create these tools for. Very surprisingly, they have similar jobs to be done even though they might be seen as different segments. However, we target only a couple of those. Traditionally, our tools, even our software was used in particular by entrepreneurs, because they were looking for tools that would help them structure their thinking, often engineers or software people who wanted to come up with new businesses. Then what happened over time, which was our target audience, is large companies started to use this a lot more. There we have several target segments within the large companies: innovation teams, product managers, marketers, etc. So we split those segments into two, saying we have the enterprise customers, which is our main focus as a company, so we focus on product managers in large companies beyond 10,000 people, we focus on innovation teams in large companies beyond 10,000 people, but then we focus increasingly on now senior leaders in large companies because we're seeing a lot of business units wanting to reinvent themselves. Business units that can be 500 million, 1 billion, or beyond, they say, "Well, maybe our

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business model expired, maybe our business model will expire in five years, we need to reinvent ourselves.” So those are the three audiences that we target. Now the one I’m working on mostly is senior leaders, the CEOs and C suite of these companies, above even the business units. However, what we don’t want to lose is also that connection to what we like to call prosumers people from the bottom up—entrepreneurs. People in companies who don’t even have the budget, really, but sometimes they buy these tools from their own credit card, but they’re early adopters. We don’t want to lose that audience so we give a lot away or also have some very affordable products, because I do think a lot of the innovation happens there. So we’re covering an interesting spectrum that goes all the way from startups, people who’ve never done business before, to the CEOs of the biggest companies of the world who get excited about this. So they’re using the same kind of tools, because the problem is a relatively new one: How do I think more, in a more systematic way, about my business model? How do I invent new business models? Obviously you’ll have different constraints if you’re the CEO of a multi-billion-dollar company or if you’re a bootstrapped startup. But the problem ultimately, there are some that are pretty similar. Creating a growth engine at Nestle, biggest food company in the world, just around the corner here, is very similar to the problems of a startup, even though you have different constraints. The job to be done of a startup entrepreneur and an innovation team in a large company like Nestle is actually pretty similar. I would even argue it’s harder for the corporate venture, because they have so many constraints. They’re almost like entrepreneurs in chains.

[21:06]

CHAD: Absolutely.

ALEX: So we have a lot more to do and to offer to these large companies because we help them understand what would they have to put in place to act more like a startup. We like to call that business R&D. Companies know how to do tech R&D but they don’t know how to do business R&D yet, so basically this new market that we’re playing in, I like to call it business R&D. The question is, is this a hallucination or is this a vision. I do think we’re seeing, because I’ve tested this with a couple of CEOs, there is a real market in business R&D because it’s not just about technology. Think of the Nintendo Wii. That was a crappy technology. But it was a brilliant value proposition with a brilliant business model. So we need to figure out how can we go beyond technology or enable technology. It’s a big theme for product managers as well.

CHAD: Yeah, the Nintendo Wii is a good example of you don’t have to be the best, you have to be different in a way that’s meaningful, that captures value for customers. It was not the best technology, as you alluded to.

ALEX: It was terrible. But it was a great business model, right?

CHAD: Absolutely. Going back to your analogy of what CAD did for the architecture industry, I like that architecture picture when it comes to organizations, and you said one of those target segments is you’re working with the C-suites now as they’re seeing a need to reinvent themselves, reinvent what the organization is about. In a sense, this is re-architecting the organization. We’ve seen organizations have real trouble doing that in the past, and it really does seem to be something that must be led by the very top. They often stall out. The efforts...they don’t get widely spread enough in the organization to make any real difference. I know you’re early into this yet. Have you seen success stories yet? I don’t know if

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this was the case with Gore or MasterCard, but the C-suite really driving this change throughout the organization?

ALEX: Sure. I think one of the examples where we were not involved but that I like to use as a great kind of early indicator that this is going to spread, is Amazon. So you have a CEO at the helm who is the founder, Jeff Bezos, who understands that the real challenge of great companies today is to be what academics like to call ambidextrous. They're world-class executors on the one hand, but they're world-class innovators on the other hand. Every company that started out small, so at the beginning they had to build something. Even Nestle or GE was a startup one day, right? Now, the challenge is when you become big, when you create processes to better execute a known and proven business model, you have great processes that you try to make leaner and leaner, to produce the same value proposition with more profit, maybe through new channels, etc. The challenge is how do I at the same time, knowing that some of these business models and value propositions are going to expire, at the same time, in parallel, how do I create a startup culture.

[24:12]

ALEX: The reason that's so difficult is because the mindset is so different. On the one hand, I like to call it exploit/explore, or improve/invent. When you exploit, you're in an execution mindset. Linear processes, you know you try to be leaner, you cut down the fat, you kill everything that looks different than the business model that succeeded so far. On the other hand, when we talk about explore, we don't know what's going to work, so we actually have to experiment. In explore, failure is not an option, it's actually mandatory, because if you don't experiment and learn, you're never going to come up with something new. That's where Amazon built this dual operating system. Some people like to call it the dual operation system. They're world class on execution, they run warehouses, Amazon web services is rarely down, when it is, the internet is almost standing still. So they're world-class at running that, and there, failure is not an option. You're not allowed to fail. On the other hand, they're world-class at experimenting. They try out new things. Amazon web services was a crazy big bet. They started small, they learned what worked, they built on some of their strengths, they eliminated some of their weaknesses, and they scaled that. That's why Amazon has so many growth engines. Amazon is the company that grew fastest from zero to \$100 billion in revenues. Fastest ever in history, in business history. Well, guess what? It's not a coincidence. It's not just because of Jeff Bezos. It's because he and his team put in place a system that allows them to systematically innovate. That's what we're lacking in many companies. When they create new growth engines, it's a lucky punch, it's the right person at the right place. What we really want is a system that allows us to continuously produce homeruns over time, new value propositions, new business models. Business models that are different from the one that has succeeded so far. So, I think we'll see a few more of those and we'll see a lot more Kodak's and Nokia's and Blackberry's, because not all companies will be able to adapt and Steve Blank, my friend, likes to call it the disposable company. Some companies will become big and disappear. Take companies that were hyped by the press like GoPro. Maybe GoPro is a disposable company because they are still big, they're still great, they still make great products, my kids love them, but they don't have a business model, I think, today, that is sustainable. So if they can't reinvent constantly their business model, they might disappear in the next two, three years. To their credit, they're trying, but they're still very much focused on fun. Sorry, I get very excited so my answers get longer, but I think it's a huge issue that we're

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seeing many, many companies struggle with, and it's an issue that goes through from the C-level down to product managers, down to people reaching customers. It's a big thing. This is a big shift that we're living through, I believe.

[27:21]

CHAD: It is. I love the Amazon example that you shared. Amazon, they're another good example of this dual operating system in terms of how much criticism they have received over time from investors, because they weren't optimizing their profit-generation capabilities. It's like, why are you wasting money over here on this innovation operating system? But indeed, that is the thing that has built their pillars to allow them to grow so quickly. Over just the last few years, we've seen just monumental growth out of them. That's what companies need to be doing. Looking toward the future and being a sustainable organization is one that first must exist in the future before anything else.

ALEX: Your pointing to an extremely important thing there, that the stock market values short term returns, which means no company, or no CEO really has an interest...if they're somehow related to, even their bonus is related to stock market performance, they're not incentivized to think long term, to invest long term. What's very difficult, we would have to have, is the established business model should be valued, evaluated and judged by the stock market. But that new part, where they're creating new growth engines, should not be valued by the stock market. We should have different capital there. We should have more of a venture capital approach. The paradox is that today the established companies need to create new growth engines, because the stock market does value growth over time. However, they don't value investments in the future growth, which is a big paradox. So we need to find a way that companies can make those investments. In the case of Amazon, it's just Jeff Bezos pushing back and we're seeing... that's one of the reasons why more and more founder CEOs try to keep the ownership and they have more voting rights than everybody else, because that gives them the right to invest long term. It's not a surprise that more companies want to stay private, or more founders try to keep the voting majority, even if they don't have the most shares. That's exactly because it allows them to invest into the future.

CHAD: This is a really good discussion we're having now for product managers, because more and more, senior leadership inside companies are expecting their product managers to contribute more strategically and product managers, we run our heads up against this problem of wanting to have more of an innovation capability and operating system in the organization and this is part of what goes into that discussion with executives, of how to contribute to making that happen.

[30:13]

ALEX: I think that the big issue is that there is sometimes a bit of a disconnect between people on the ground who are running these innovation projects and the top. This blows me away. Big companies are still asking for business plans, for new ideas. The business plan when you build a new factory or you open your 110th store is fine, because we're talking about a known problem, it's an execution problem. Great. You can write a business plan; you can project the future. However, when you are addressing a new market with new customers, maybe new business model, probably with a new value proposition, how are you going to make projections? Let's have a bottle of wine or a bottle of vodka? It's a dream, right? So then we write a business plan and then senior leadership expects us to execute a fantasy. Well,

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guess what? As Steve Blank likes to say, again, I'm quoting him because he has these great one-liners. "No business plan survives first contact with customers." So what we need is a leadership that understands when it comes to innovation, we're moving fast. We're experimenting. Business plans are actually a way to maximize the risk of wasting money, the risk of failure, rather than to minimize it. What we need is the mindset to say we don't know what is going to happen. We have no clue at the beginning. However, we have the process and the system in place to reduce that uncertainty. The more experience we make, the faster we learn, the more we reduce uncertainty. It's not by writing a business plan that we're going to reduce uncertainty. It's about iterating and pivoting these business model canvases, value proposition canvases, by talking to hundreds of customers. That's how we reduce the risk of failure. I think product managers understand this process really well. The problem is, it's sometimes a disconnect with the senior leadership. But it's changing. It's changing. That's the good news.

CHAD: That's the good news. Your work is helping that considerably. As you said, you're in some sense having to build the market as you go, because businesses are starting to recognize more this notion of business strategy R&D, business model R&D. So that's good. Let's talk about name a little bit. So for product managers, we get involved with having to name products some of the time, depending on our role in marketing or the like, and a name has a big impact on a product. It's easy to Google product name failures and find out the bad ones. In my case, I told you when we were chatting a little earlier, your book, when I first saw it come out, I didn't look at it closely. That was because, it's like, oh, Value Proposition Design, I put the emphasis on value proposition, like, I know how to write a value proposition. Okay, sure. Do I have more to learn? Absolutely. But, I didn't go any further. It was only several months later that a friend said, "No, you really need to look at this book, because the emphasis is really on design from my take on reading it." As you said before, you were able to connect into things that were going on at the time with lean startup and design thinking sort of things. Talk about the name and what you guys did in coming up with the name and what you considered and what you think about that.

[33:30]

ALEX: Yeah, so a couple of things. First thing is we did test the name. So, we had a group of 100 what we call pre-readers in this case, that we selected and they helped us work on some of the book content. They helped us craft some of the initial titles. Then we took three of those initial titles crafted by these people and us, and started to test them on our website, with 10,000s of hits, and see which one performed best. So we had things like Customer Stampede, Value Proposition Toolbox, and all these things. Value Proposition Design won. But here's the catch. It's something that I think is a big lesson also for innovation and product management. When your starting point is wrong, you'll hit local maximum. So what I realized later on is that a couple of things were not very good with the choice even of value proposition. It's a bit of a fancy term and we like to avoid jargon and maybe we should have...we had something at the beginning, like Make Stuff That People Want, whatever. But value proposition is a bit too fancy. Maybe product would have been better. That's the first thing, that we used some terminology, kind of learned that later on, but it's very hard to test, is this the right terminology or not. So it's something we didn't catch with testing. That's the first thing. But the second thing, it's very interesting that you shared your experience, is while we thought that the audience for Value Proposition

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Design, for the book and the tool, was broader--there are more marketers, there are product managers, there are more salespeople that have to sell, make value propositions, than people who focus on the business model. We said, well it's clearly a broader market. What we learned over time, and this is a thing you learn over long term. Very hard to test short term. A lot of people reacted like yourself, saying, "I know what a value proposition is. I know how to do this." That's very different from the topic of business models. There were more people who were willing to accept they didn't know how to really think about a business model. So there were more people searching for the term "business model" than people searching for the term "value proposition". It's only, and we learned this over time, when people start to play with these tools, they start to see their limitations and how they worked so far. So there is, I think it is a breakthrough when using these tools, to have better conversations and better processes, however, people do not see a burning pain. That's what I like to call, in the jobs to be done, when the job is not tangible enough or painful enough, then guess what? People are not going to pick up on a new solution.

[36:29]

ALEX: So the job of figuring out the business model and the pain of not knowing how to do it was bigger for business models than for value propositions. So that means for us that it took a lot more educational work, a lot more convincing to do, to tell people, "Look, you know how to do a value proposition, but you can do it 10 times better." So we had to, and this was a big learning for me as an entrepreneur. We had to explain a lot more. We had to educate a lot more, because there was not this pull. We had to push a bit more. We knew we had a valid solution but we needed to push and make it experiential and get people attracted. Whereas with business models, they came to us. We didn't have to do anything. Hundred thousands, literally, were searching for the term "business model" and how do I figure that out. Which is not the case for value propositions. Though the target market is bigger. The good news is the total addressable market is bigger, so it's now up to us to convince people there's something here. It was harder, a lot harder for value proposition design than for business model generation. For reasons we didn't capture in the testing phase, because we did test a lot. I think it's a great lesson for product managers, understanding, okay, where is there a stronger pull already, you want to focus on that. Wherever you have to push more, even though you have a clear vision, you might take a longer-term approach. So, typically, we know that we're onto something but we also know it will take 10-20 years until the market is ready, so we have intermediary value propositions, intermediary business models to get to our bigger picture vision of where the world will be in 10-20 years. Big learning.

CHAD: Big learning. Yeah, I can see how the puzzle pieces fit together at the time, too. That I appreciate business model, that had more pain associated around it. Anyone that's done a 30-page business model just really never wants to do that again and the idea of a 1-page canvas that is a great collaboration tool that you can immediately start using, I can generate in 20 minutes, this is really compelling. Compared to value proposition, which was a hole that you found as you were interacting with customers on the business model tool, like this is something we do need to provide a solution for people using it now, but I can see how those pieces fit together really well. You did the testing, right? And product managers, we like to have some data to rely on and say, "Yeah, this is a reasonable choice."

[39:04]

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Host: Chad McAllister, PhD

Guest: Alex Osterwalder, PhD

ALEX: But here's the paradox. There's this study by Simon Kucher the biggest pricing firm in the world, that shows that 72% of all new products and services launched don't deliver on their promises. That means seven out of ten products fail. So, apparently, the pain is big. You would think. But the reality shows that whatever the stats tell you, the reality is a bit more difficult, so because in large companies we have these failures and people don't necessarily...they're able to brush this under the carpet. It's not as big a pain as the statistics might show you. So, since it's really interesting what you learn in the process and as a product manager, as an entrepreneur, as an innovator, these are the things that I think tools will help us learn a lot better. We're in the business of making tools. I like to call ourselves tool smiths. The pains that we're facing, we're making the tools for it and we just hope to promote more of these tools and give them away and sell some parts of it so we can change the way people do business, so we can reverse that stat. It shouldn't be that seven out of ten products fail. It shouldn't be. I think we're on a good path as a community of thinkers and doers to do better.

CHAD: Absolutely. So, this book, *Value Proposition Design*, and we probably don't have time to do this question justice, I just want to make sure I frame this properly for Everyday Innovators that are listening. So, when I went through it, I went, "Oh. So this helps me to connect some pieces from lean startup practices. It helps me to connect pieces from design thinking, building from that kind of place of what I knew before of the business model canvas." Like your previous book, it's entertaining. It's an entertaining book to grasp in the sense that just how it's laid out, it's very visual and it conveys information well. Putting it kind of in that circle and by framing it in a way that is reasonable, so value proposition design, lean startup and design thinking, they're kind of in a circle that helps us. How do we solve a customer's problem and get a product in their hands that produces value for them?

ALEX: What I would add to that is the visual thinking part. So, something we always believed in with Yves Pigneur the coauthor, but we kind of underestimated the value, is making things tangible and visual. When you say product, you say, "Okay, I'm going to make a prototype." When you say business model and value proposition, how can you make that tangible? Well, it turns out, with a canvas you can. In addition to the design thinking, to the lean startup and the tool aspects, it's simply the visual aspect was very important. Here's the funny thing. And I learned to deal with it a lot more, it that, Amazon I sometimes looked at the reviews in particular for the first book, and people would say, "Yeah, this is just the same stuff. We already know this. There's nothing new here." Well, turns out that when you have literally millions of people using the tool, probably there is something there. I think we didn't reinvent the wheel, but we made things a lot more practical and systematic.

[42:21]

ALEX: So we were not the first to talk about business models. We were not the first to talk about value propositions. We didn't invent lean startup or customer development, but I think what we're pretty good at, when I say "we" I mean the Strategyzer team around content and also software, is we try to take these things and make them ultra-relevant and ultra-practical. So I think when it comes to business books, there's a lot of good stuff out there, but ask any audience. Are business books too long, too theoretical, not practical enough? Do you need to translate them? Do they lack visuals? People will always...you can prove in a minute that the format is broken. I think what we're really trying to focus on when it comes to the content part is how do we help make that translation from a concept, from an idea, from a business idea, in a business tool, into something ultra-practical that a manager, product

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manager, senior leader, can use in a meeting in their daily work. That part, I think as a community of business thinkers, we're not good enough yet. And that's what I hope, and you said, more and more canvases are popping up. While sometimes I'm annoyed that some of these canvases are really bad, I am happy to see that there's a trend there. I do hope there will be more business...kind of business tool creators out there, more business tool smiths. I guess we have to share a bit more how to make good business tools, how to make them practical, relevant, conceptually sound so the noise goes away and we have more of these tools. I don't think I'm very good at many things, but I am pretty good at business tools. I hope I can share more of that in the future, so we can have more business tools.

CHAD: Absolutely. I'm flipping through your book here as you were talking about that. One of the early sections is the business reader profile, where you address the pains and gains and the jobs that they need to get done. That's a big one, right? That we don't have enough time, we need things that are easier to digest, and when I was alluding to this kind of circle of the three before, lean startup and design thinking and this, I want to make sure listeners know, when I read this book, it's like, "Oh." There were new lightbulbs that went off. A lot of times I get asked questions when we're talking about validation, what are some good customer validation questions? We might go look at Eric Ries' work or I often look at Ash Maurya what he's done in Running Lean, kind of a follow-up to lean startup things. Has some good tools there. You provide awesome tools like that in the book. Here's great customer questions to help investigate ideas and problems. So I'm starting to recommend tools out of here to people when I get those questions now.

[45:11]

ALEX: I think we're only at the beginning, so typically right now I'm working on a new online course around these, particularly customer development and lean startup tools, because I do think the ideology is there, people are shifting, but I don't think we have all of the practical answers. Like how do you define a good hypothesis? How do you design a good experiment? One thing that we're seeing in a lot of projects, teams are struggling to kind of synthesize their interviews and learn and act upon the data that are generated. It's very easy to do an experiment. It's very easy to do 10, 20, 100, 500 interviews. However, the interview is not relevant if you don't learn and act and make progress. So, even this fancy term that's coming up, innovation accounting, I don't think we're there yet. We don't have a good way to measure progress. Not activity. Measure progress from idea to business. That's one of the things that I'm really excited about that I'm working on now. What we learned is books go so far. With the online courses we can go a lot further. We're trying now to say, "Okay. Let's not do a book on its own. Let's do a combo, where you have a book, but you have an online course also and you can kind of play with the two." What we really have found is this blended learning, physical things to touch, the online content and exercises that teams do together, that's the best combination. So, multichannel, obviously one of those things that's been around. We're starting to learn how can we really help teams scale this up. So this is big learning that came out of projects like MasterCard. How do we go from a small team that knows how to do this to 10, 15, 20, 50% of the company knows how to do this? That's the big challenge. And get them excited. Because you can't, nowadays everybody has a lot to do. You can't tell them; oh you need to do this. No. You need to get them attracted. You need to want them to learn. When you have a busy day, the last thing you want to do is learn more. If you don't see it's relevant, nobody's going to invest in this.

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CHAD: Exactly. I've been doing what I call study groups. I'm rebranding this for a moment, but companies for a while now. It's built around that eCourse, eLearning, independent learning, and then coming together to discuss how they apply to your situation, your company. That's been really effective, making that combination. I'm going to check out what you guys are doing more, too. So much more we could talk about in this area. I just want to make sure listeners know I strongly recommend this book. I found it very valuable myself. To get to the end of the time here, I love innovation quotes; I always ask for one. Do you have an innovation quote you can share with us?

[47:59]

ALEX: There are so many. I think you know what I found really fascinating is Steve Blank's work, simply because for me it connected the dots. We were talking about design thinking in the first book, *Business Model Generation*, yet we didn't really call it testing the way Steve Blank called it first in the four steps of the epiphany and then after in the Startup Owner's Manual, where he integrated our tools. So we mutually integrated each other's tools. I do think that process of customer development and obviously also Eric Reis' book, I think that combo is extremely powerful, extremely powerful. I like visual books so, interestingly enough, I dive a lot into architecture books and cookbooks to get inspiration for the books we do, because innovation needs recipes. We need to figure out how to do this and cookbooks and architecture books give us a little bit of that. But otherwise the combo between Steve Blank's book, Eric Reis' book and our book is a good foundation to start from there. I think the stuff that goes further when you're in a large company is Rita McGrath books on how do I create a more transient strategy, so the end of competitive advantage, I think is the next step when you move a level up and you think more corporate. Tons of books out there, and obviously all of the great stuff that you've also portrayed in your interviews with Tony Ulwick There's no end to that list. The way we learn in professions like medicine or so, I think we should have that continuous mindset of learning in business innovation and strategy. It doesn't stop, right? And we need to be a lot more professional. I like to say when innovation and entrepreneurship and product management becomes a lot more like teaching accounting, then we've figured it out. Because nobody just goes out and does some accounting, right? There's some rules, there's some processes and there's a system in place that makes it work on a large scale throughout the world. Innovation, strategy, entrepreneurship is a young discipline, so we're not there yet, but I do think we can get a little bit more rigorous, always staying flexible enough to enable the creativity of human beings, of entrepreneurs, of innovators, to prosper. However, I think we can be a lot more systematic. That's a big, big thing for me. I'm trying to bring in at least a little bit of that, more system, in these things that we have been doing for decades. Innovation is not new. Creating products is not new, but I think we can be more systematic about it.

[50:56]

CHAD: When I put together the show notes for these I always put together the specific innovation quote. So I'm going to give you an option, because I pulled out one from you as you were talking, right? Which is at the end there, which is simply, "We can be a lot more systematic." Which I like, and also, if you have a favorite Steve Blank quote, we can throw that in there too.

ALEX: I'll give you two, actually. The one from Steve Blank that I like is, "You need to get the *** out of the building." There are no facts in the building. I think we spend way too much time thinking about our

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ideas and fabricating about them. As Steve Blank likes to say, "There's a fine line between vision and hallucination. It's only when you get out of the building that you can test that." But the one I think that's really important, connecting it back to Jeff Bezos also, is that one of the things that he wrote in his 2015 letter to shareholders is he believes that Amazon is the best place in the world to fail. How many CEOs have you heard say that? I believe my company is the best place in the world to fail. As long as we don't have that mindset, innovation is not going to happen on a large scale in large organizations. So for me, at the moment, that's my favorite quote that I really like to share with senior leaders, with the CEOs that I have the opportunity to talk to sometimes, because the more companies we get to think like that, the more senior leaders we get to understand there's a dual operating culture, the more we can prosper as innovators. Not just outside of the system as entrepreneurs, but inside. So I think we want to have the best of both worlds. We want to see innovation coming out of startups, but also out of large companies. We'll have different types of innovation. I'm excited about that quote, very, very much, because I think it shows what CEOs in the world should be thinking about and what they should be proud about. Bezos saying I'm proud that you can really fail at Amazon, that's amazing. I'd like to see more CEOs say that.

CHAD: Exactly. That's a powerful quote and one I was not aware of. I always love hearing new quotes, too. That paints that new operating system picture well, too. In terms of just wrapping up here, how do listeners find out about the book specifically? Where's the best place to go? And anything else you want to share about Strategyzer and what you guys are doing now.

ALEX: Yeah, we have a lot of free resources on Strategyzer.com. You can also just Google Alex Osterwalder or Business Model Canvas and you'll find all of that stuff. I think our blog is something that is worth following. Blog.Strategyzer.com, simply because we tried to share our latest learnings. We have this visual and short blog post format that allows you to read a blog post in two minutes and get something out of it. That's where we share our latest learnings from the field, from our conceptual thinking that we apply in some of the most successful companies around the world. I think that's worth checking out.

[53:55]

CHAD: Good. So, blog.Strategyzer.com. And for people that want to find Value *Proposition* Design book itself, is Amazon the best place? Okay, go to Amazon, look for *Value Proposition Design*. I will put all the links in the show notes, make it easy for Everyday Innovators to find those resources, too.

ALEX: Both books, actually, just one more thing. Both books, we make 1/3 of the book freely available. If you go to Strategyzer.com, you get 1/3 of *Value Proposition Design* and 1/3 of *Business Model Generation* for free. So check it out. If you like it, then go to Amazon. You don't have to buy the book to figure out if you like it. So we try to bring a little bit of premium to the world of physical books.

CHAD: Always being innovative. Alex, I sure appreciate your time. Thanks so much for bringing these ideas and important concepts to our listeners. Thanks again.

ALEX: Great, it was awesome being part of this. Thanks for the questions.

CHAD: Thank you for listening. Please tell other product managers and innovators about this podcast. I make that easy - just go to the show notes for the summary of the discussion with Alex and you'll find

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