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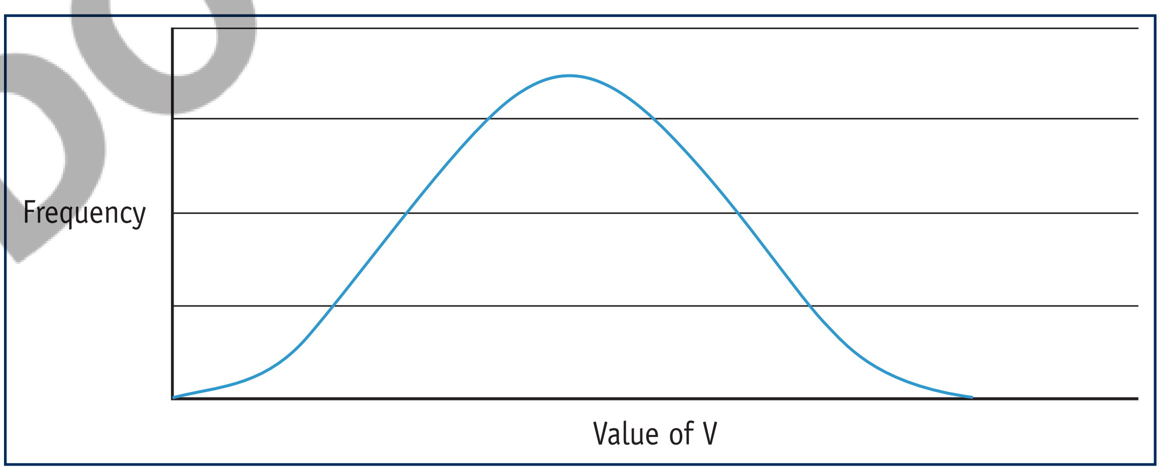
Note on the Value Proposition and Business Models

How do companies make money and stay in business? There are some long answers to this question. One might say that the entire curriculum of business schools worldwide and the vast literature on management are directed to answering this in some detail. Here, we are just looking at the simplest core concept. It's this:

- a customer buys something (a product or a service) if the value (V) he or she places on it is greater than what he or she has to give up to get it. Let's call this "give up" the price (P).
- the company offering that something makes money if the price (P) at which it offers the something inducing the customer to buy is greater than the cost (C) it incurs in providing it.

Good things can happen if V > P > C. Working out your "VPC" story is basically developing your "business model."

There are a couple of pretty obvious, but important, points to note about a VPC story. First, people (and companies) are very different from one another. Thus, for any given offering, people will have different V's. The distribution of V's across the population might look like this—say for a widely used staple like a tube of Crest toothpaste.



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