



Getting The Product Right: Understanding Customer Choice

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Overview

- Defining The Problem
- Common Approaches
- The Feature-Value Method
- An Example
- Applying The Method
- Time Line



Winning With A New Product

- How Competitive Will The Product Be?
- Do Customers Value Feature A Over B?
- What Is The Right Price Point?
- What Market Share Can We Expect?
- Will Feature A Be Worth The Investment?



Common Approaches

- Methods
 - Ask customers
 - Ask the sales team
 - Marketing & engineering dialogue
- Obstacles
 - Hard to judge qualitative data
 - Customers are cagey on price
 - No handle on competitiveness



The Feature-Value Method

- Show Customers Sample Product Configurations That Include Price
- Correctly Done, This Yields:
 - Relative value of the features
 - Demand curve as a function of price
 - Preference share
 - ROI for various alternatives

Credit Card Example

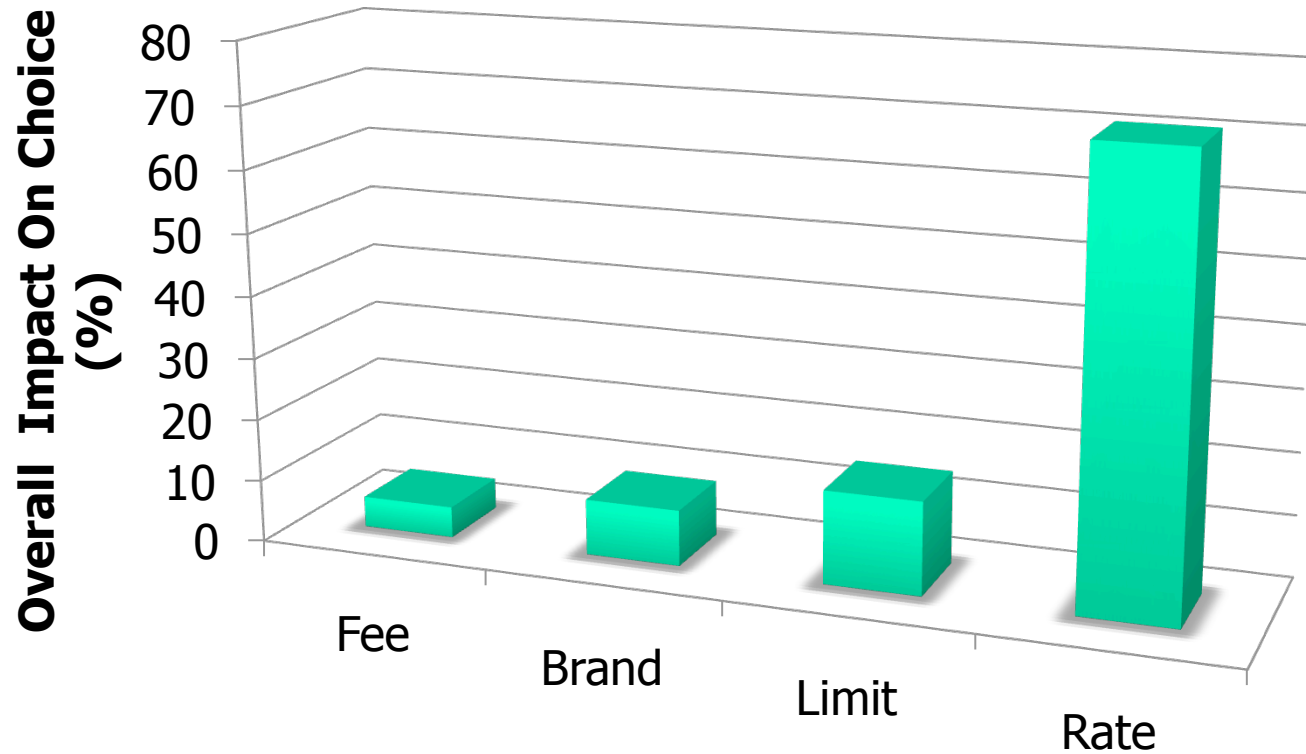


- Define Sample Cards
 - Brand (MC, Visa, Discover)
 - Interest Rate (9%, 12%, 15%)
 - Max Credit (\$4K, \$8K, \$12K)
 - Fees (\$50, \$100, \$150)
- Ask Customers Or Prospects To Rate Purchase Likelihood
 - 9 to 18 sample combinations

How Features Affect Choice

Credit Card Example

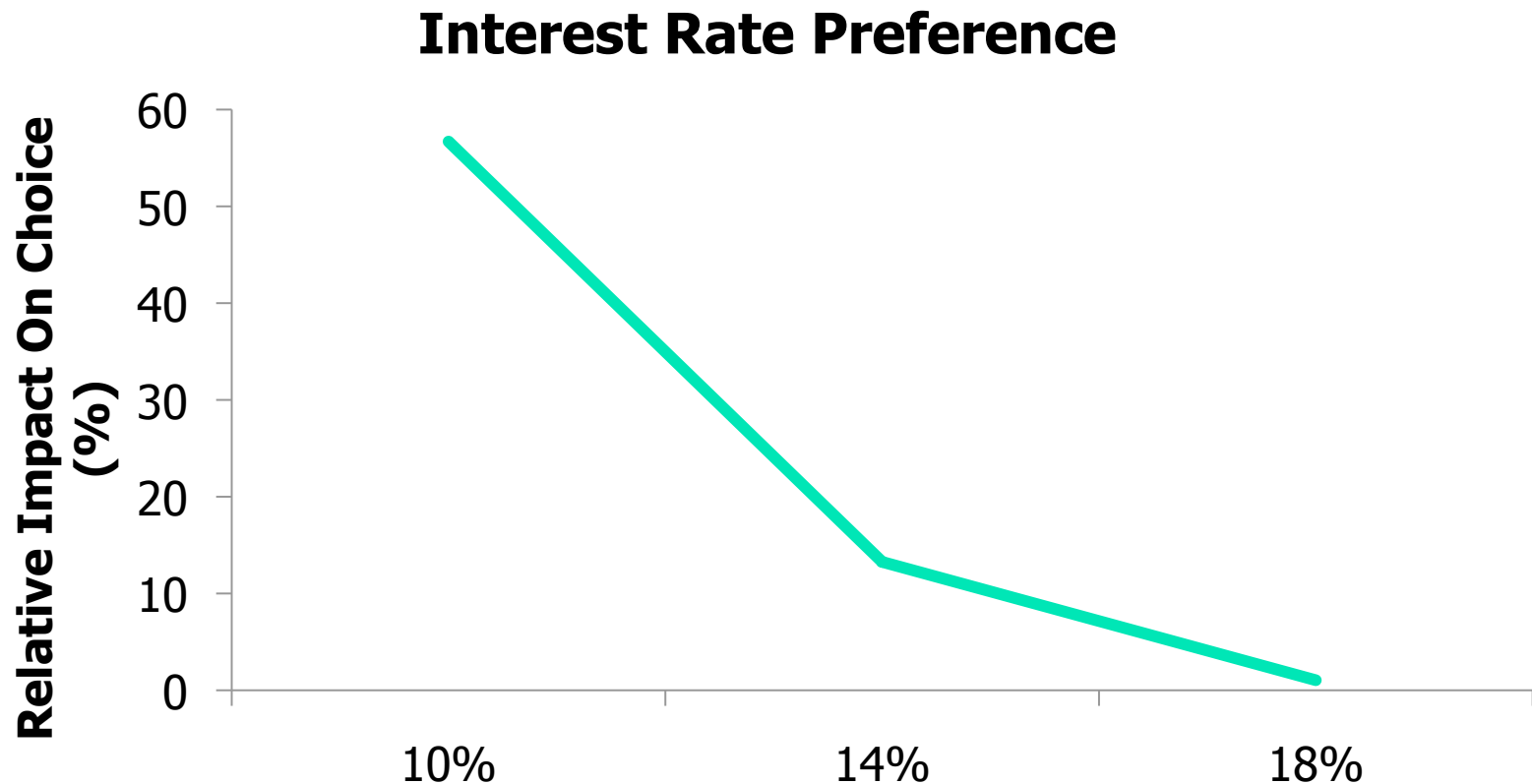
- Interest Rate Is The Most Important Feature



Drill Down On Key Feature

Credit Card Example

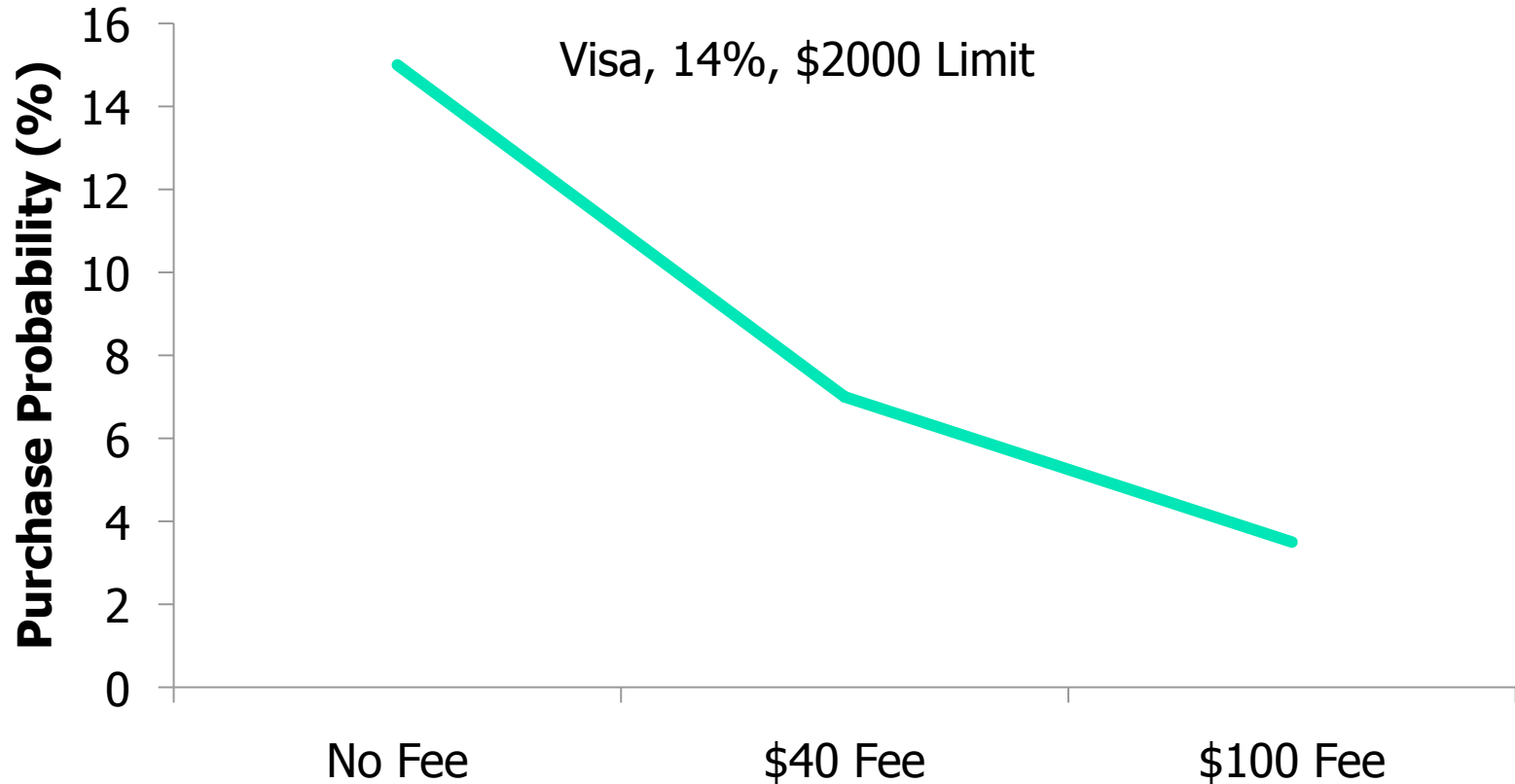
- A 10% rate is significantly better than 14%
- The difference between 14% and 18% is minor



Understand Demand Curve

Credit Card Example

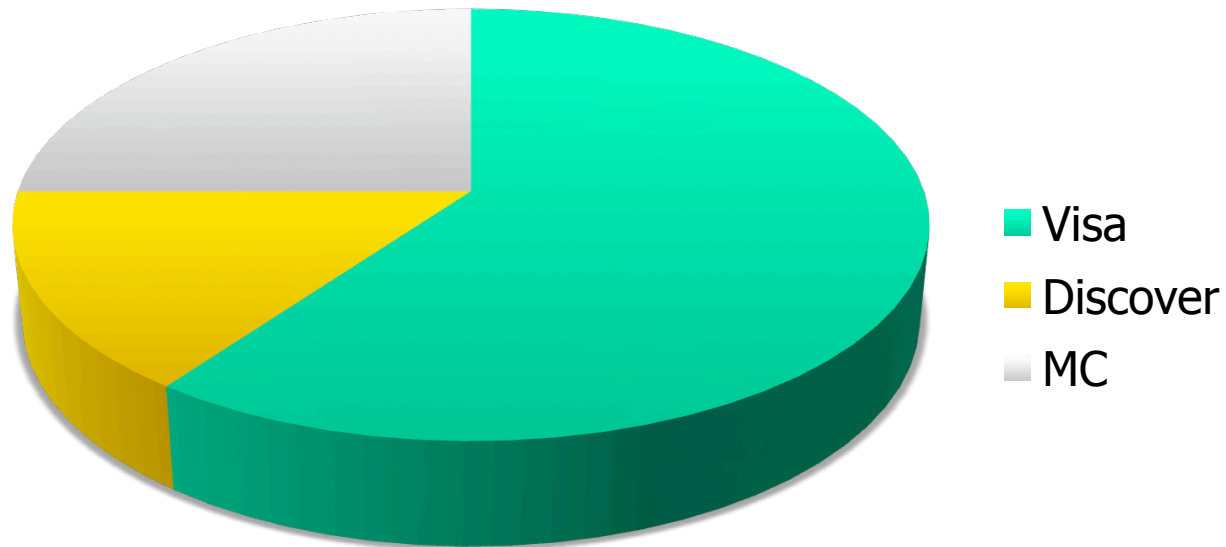
- The demand curve is non-linear
- A \$100 fee and \$40 fee is perceived similarly



Forecast Share Of Preference

Credit Card Example

- A Visa card with features as shown could achieve ~70% market share against the Discover and MC cards



Visa, 10%, \$2000 Limit, No Fee
MC, 14%, \$5000 Limit, \$40 Fee
Discover 18%, \$5000 Limit \$60 Fee



Calculate ROI

- Using projected share, price and total available market provides an estimate of total return
- This can be compared against the cost of developing and marketing the product to compute ROI



Applying The Method

- Understand The Feature Set
 - Customer discussions
 - Applications/Sales/Engineering input
 - Survey
- Select Features
 - Ignore features that every product must have
 - Focus on either/or features
 - Focus on high cost features
 - Select 3 to 5 features
 - Each feature is usually represented at 3 values

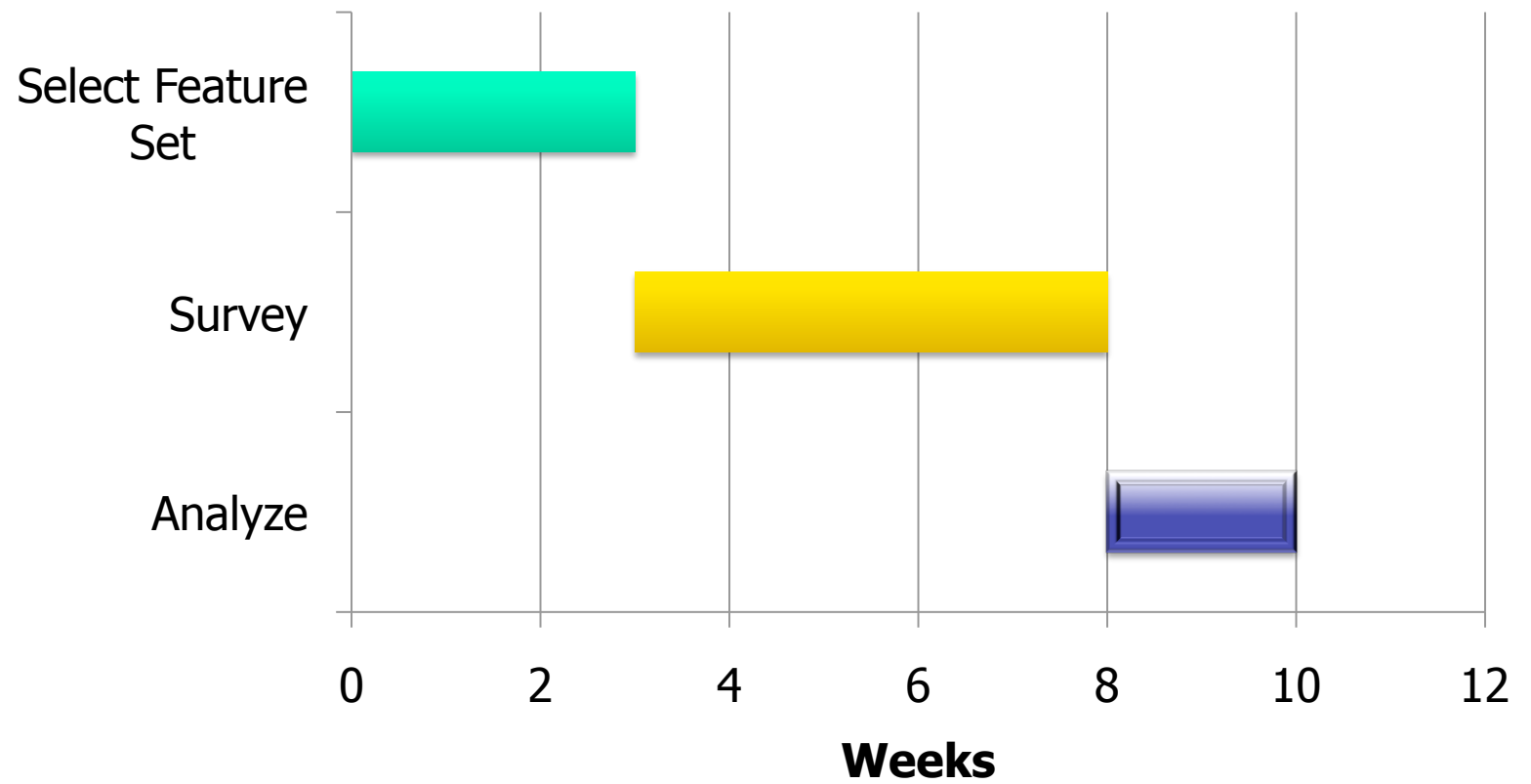


Applying The Method (cont.)

- Collect The Data
 - Key customer calls or visits
 - Focus on customers who drive your business
 - Sample size must be about 20
 - Internet survey
 - Broad coverage if market is diverse
 - Opportunity to look for segments



Timeline





Summary

- Proven Path To Sound Product Development Decisions
- Improve Competitiveness, Market Share And ROI