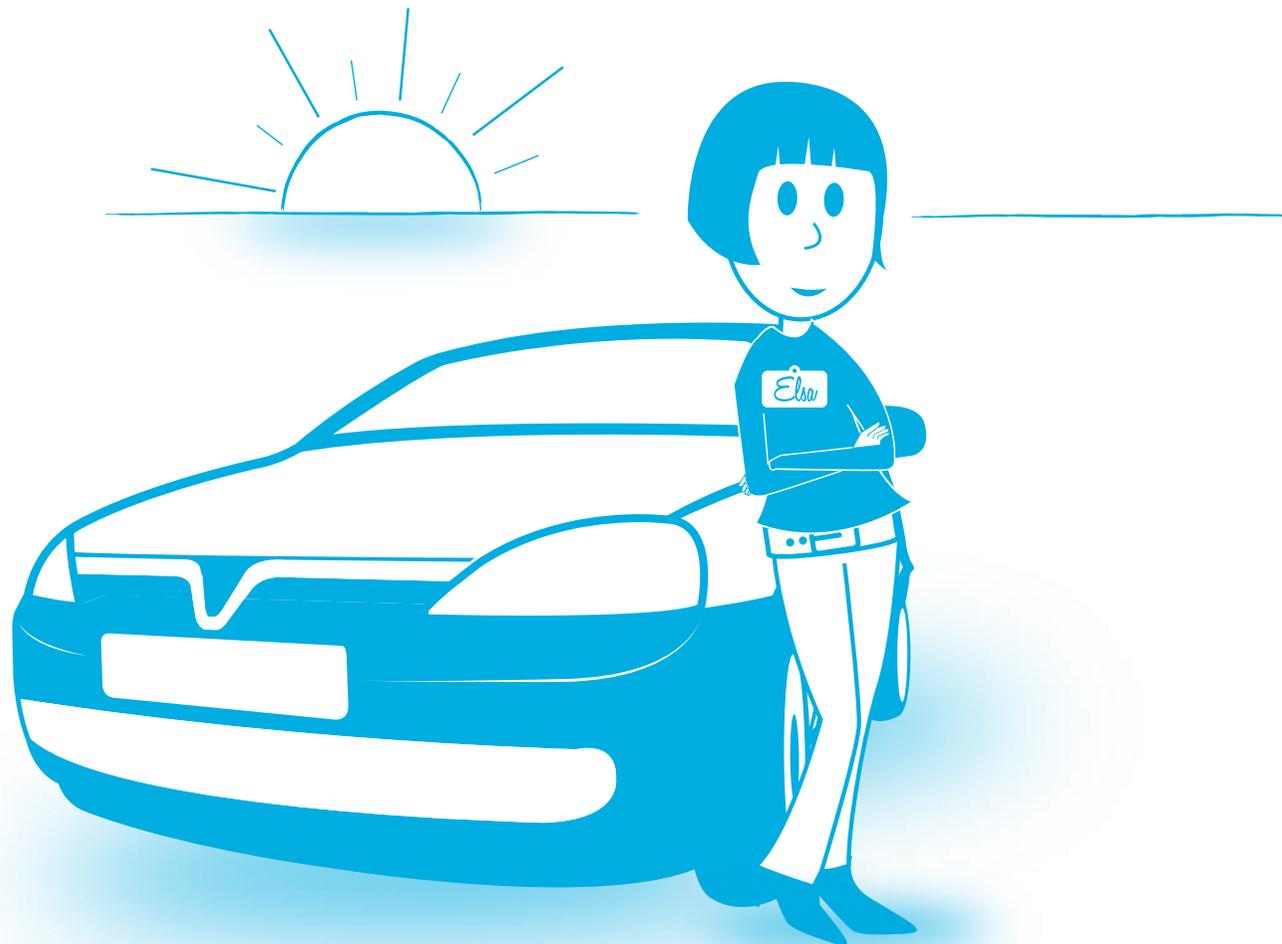




# Menu-Based Choice Modeling:

Optimize your menu of products or services

*"Fictional MBC case study: 'MotorCars Unlimited strives to set itself apart in the market'"*



# "Determine which products and options to offer with Menu-Based Choice modeling"

**If your company offers products that allow customers to choose their preferred options or features, how can you efficiently and accurately determine the options to offer and the optimal price points for each?**

**The answer is Menu-Based Choice modeling - or in short, MBC.**

MBC modeling is the latest development in the field of discrete choice methodology. MBC describes choices in markets where customers have freedom to customize the design of a product – think of a fast-food environment, where customers create their meal by selecting the size, burger type and adding side orders. This is a choice that traditional Choice-Based Conjoint modeling (or CBC) can't capture, as it can only describe choice between fully-configured, non-customizable products - such as an mp3 player or a can of soda.

By using MBC, you can compare the performance of portfolios of different options and different

prices. Depending on your business objective, you could identify the portfolio that yields the highest average expenditure per customer, or that maximizes the sale of highly profitable items. That is just a sampling of the value your company can realize by employing the MBC methodology.

To provide you with concrete ideas on how MBC could be relevant to you and your company, we have developed a series of fictional MBC case studies. In this booklet you find one of them.

**Enjoy the read and be inspired!**



*Mik's menu*



*Mango menu*



*Morning menu*

# "MotorCars Unlimited strives to set itself apart in the market"

## Background: Declining market share is crushing the company

Elsa Bader is feeling very stressed. As a product manager for *MotorCars Unlimited*, she's in charge of managing pricing and the portfolio of car optionals for superminis and family cars. When she joined the company seven years ago, *MotorCars Unlimited*

was doing fairly well. However, more recently, its market share has taken a hit in the steadily declining automotive market. In fact, unless the company can reverse the sales slump, it may very well have to shut down operations.

The fact is that *MotorCars Unlimited* is a middle-of-the-road car company, with most sales coming from family cars that are not perceived to be very stylish or of extremely high quality. Scrambling to come up with ways to increase sales, the company's executives decided to position the company as producers of stylish but unpretentious cars targeted at consumers aged 18-35, typically first-time car buyers.

With a goal of offering an affordable car that matches the style and the taste of the consumer, *MotorCars Unlimited* has launched a new model called the 'Specialized'. Knowing the company's fate rested on the success of this car, the executive

team hired a well-respected – and high-paid – consumer products designer along with a pricing consultant for the project. The end result was an innovative model that includes numerous optional features, allowing buyers to customize the car to their liking. So far, the Specialized has proven successful in helping *MotorCars Unlimited* change its image and boost sales.

However, along with success has come a problem: profits on the model's optional features are low because it's quite expensive to assemble customized cars. *MotorCars Unlimited's* executives don't want to discontinue the inclusion of options as they feel the variety is the key to their renewed success.



"MBC helps understand response to various offerings that feature more than 1 element"

### Challenge: Optimizing sales without raising costs

Though Elsa was happy to see consumer interest in the Specialized model, she was a bit frustrated at being bypassed when it came to pricing the optional features. It didn't help that she knew what her company paid the consultant. That said, she realizes there's no sense in being resentful. Rather, she needs to focus on how to optimize the pricing now that the consultant is long gone – and her job is possibly on the line.

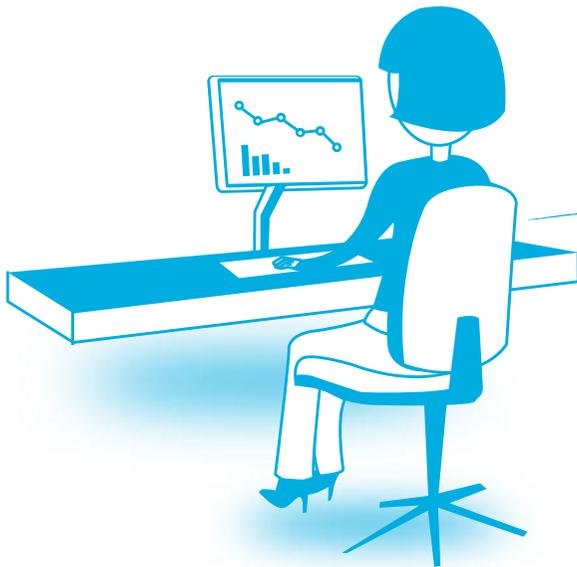
With a long career in product management, Elsa knows she needs to review the latest sales data so she can advise on pricing for the optional features. To date,

she has mainly based pricing as a fixed markup on cost. But she realizes she needs to come up with a new approach to address the issue of low profit margins.

After reviewing the sales figures, Elsa notices that most customers gravitate to certain options in clusters. For example, she sees that the spoiler and the 'MOMO mag wheel' are frequently purchased together. This insight inspires a brilliant idea: to improve margins, she wants to start offering packs of options – at a discount – that don't require much assembly. The hope is that a significant number of customers will choose the

pre-configured packs and that margins will improve without the need to discontinue any option.

Elsa works closely with R&D to create new options and usually conducts research to test prototypes of new options. In this case, she realizes the company needs to engage their go-to research firm, *MIKS Insights*, to administer a Menu-Based Choice (MBC) modeling exercise. Having run an MBC survey before, Elsa knows it can help her understand response to various offerings that feature more than one element and the ideal price points.



"MBC helps the company pinpoint the feature packs and prices most likely to see uptake"

### Approach: Surveying consumers to understand their choices

Based on the sales data, Elsa and her team create different options packs to test at various discount levels. Once they have these details, *MIKS Insights* runs the survey with a panel of young consumers. The panelists are presented several screens showing the packs in different configurations at different price points, and are asked to choose the one(s) they are mostly likely to purchase.

The packs include the following:

- **Security pack** featuring a silent alarm and a tracking service in case of theft
- **Style pack** featuring pinstripes and eye-catching paint colors

- **Performance pack** featuring mag wheels, a spoiler, and sporty halogen headlights
- **Entertainment pack** featuring a high-end stereo system and one-year subscription to satellite radio
- **Comfort pack** featuring ergo dynamic heated seats and a leather-bound steering wheel

This exercise reflects the choices that *MotorCars Unlimited's* customers will need to make when they purchase the Specialized. More importantly, it helps the company pinpoint the feature packs and prices most likely to see uptake.



# "Steer consumers' choice in a way that increases margins and customer satisfaction"

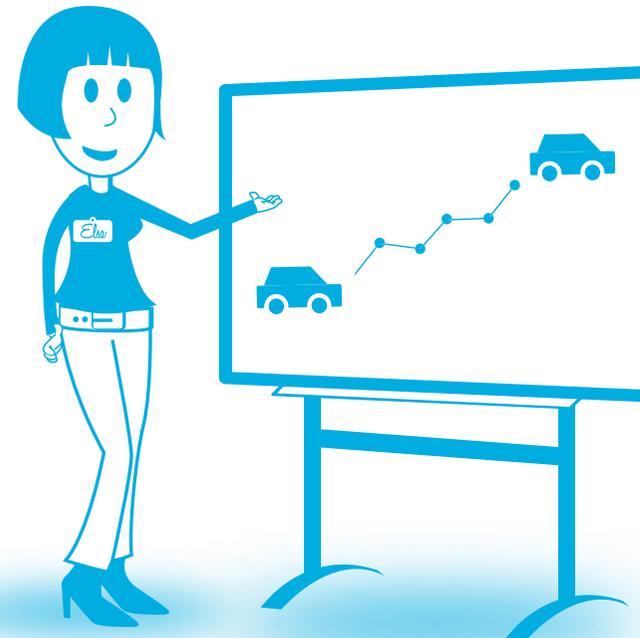
## Results: Boosting sales by appealing to consumer interests

Once the survey is complete and its data analysts have prepared the report, *MIKS Insights* sends the findings to Elsa. She calls a team meeting to review the survey results, which show how frequently consumers chose the different pre-configured packages and at what price levels. She's somewhat surprised – though not shocked – to see which optional packs proved most popular. The panelists expressed a fair amount of interest in the comfort pack, but not as much in the entertainment pack and she sees the company can't currently offer that pack at a reasonable price point.

Based on the findings, Elsa prepares a presentation

recommending the company to introduce three new packs: the ones focused on security, style, and performance. Elsa feels the three recommended packs will best help *MotorCars Unlimited* reach the widest variety of young customers.

The company's executives are pleased with the proposal, since it allows *MotorCars Unlimited* to steer consumers' choice in a way that both increases the company's margins and customer satisfaction. But most important of all, Elsa's proposal will enable *MotorCars Unlimited* to maintain the competitive advantage afforded by its vast selection of options.

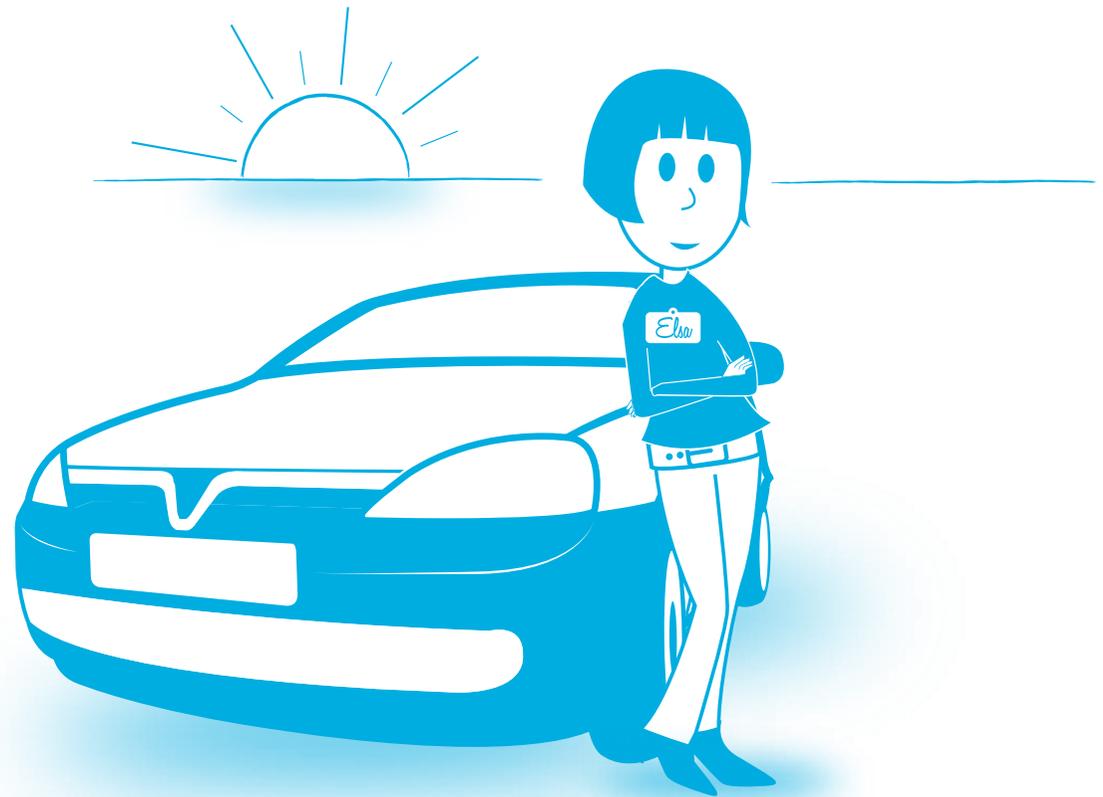


*"The offering of the new packs result in sales growth along with lower costs to produce customized vehicles"*

The Chief Marketing Officer is tasked with launching a campaign spanning conventional and social media to promote the new offerings to young consumers. Shortly, the company's ads are running on popular television stations and across relevant websites, and are being delivered to mobile phones.

The consumer response is high and within three months, over 30% of all Specialized models are purchased with one of the packs. At the same time, sales of the Specialized have risen by 18% during the same time frame.

Elsa is thrilled to see sales growth along with lower costs to produce customized vehicles. The company's executives are just as pleased, and show their appreciation by presenting Elsa with an award and bonus at the summer sales meeting. As Elsa accepts her award, she smiles as the thought crosses her mind that her next career move may be as a well-paid pricing consultant.





## Capitalize on our MBC expertise

As you can see, MBC can provide numerous insights that allow companies to optimize their menu of products and services. This is just one example, but MBC can be used to solve very different business challenges, in many industries. We invite you to have a look at our other case studies illustrating the diverse value of MBC, or sign up at our website at [www.skimgroup.com/MBC-casestudies](http://www.skimgroup.com/MBC-casestudies) for our monthly updates.

If you would like to discuss what MBC can do for your company, please contact our experts:

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## About SKIM

With a methodological heart and conjoint in our roots, SKIM has been a discrete choice specialist since 1979. We have been closely involved in the development and testing of Sawtooth Software's Menu-Based Choice conjoint technologies and have written and presented various papers on MBC. We have applied MBC multiple times to solve complex business questions from top multinationals worldwide.



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