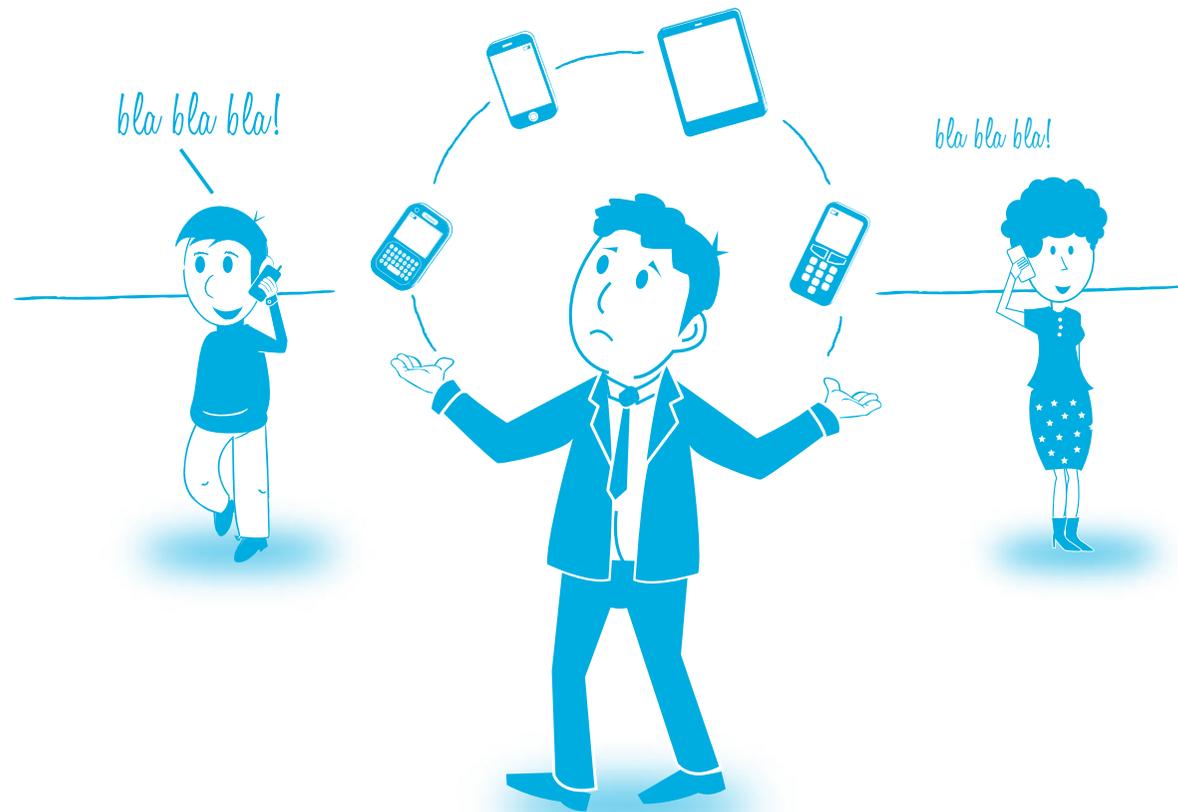




Menu-Based Choice Modeling:

Optimize your menu of products or services

"Fictional MBC case study: Wired Telecom seeks to regain its market leadership position"



"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



"Wired Telecom seeks to regain its market leadership position"

Background: Struggling to differentiate from the competition

Matt Johnson is frustrated by his company's loss in market share over the past twelve months. For nearly a decade, Matt has worked for *Wired Telecom*, a large telecom company that has been in business for nearly 30 years. Since Matt came on board as a portfolio manager, he enjoyed many years' managing consumer products and services that attracted new customers and spurred existing customers to renew their contracts. In fact, during the time Matt has worked at *Wired Telecom*, the company has been the market leader.

However, new providers seem to be entering the market at every turn. And their lower rates on voice/data bundles has slowly but constantly eroded *Wired*

Telecom's market share. *Wired Telecom* is in a sticky position – it has to stop share loss, but can't match its competitors' tariffs and still turn a profit.

Because *Wired Telecom* is selling a lot of smartphones along with its voice/data contracts, it is focused on offering exclusive services instead of matching its low-cost competitors. The company has, at the moment, one thing going for it: Matt's brainchild, an optional service that provides customers with unlimited high-speed data during weekends and after 17:00 on weeknights. This service, paired with the high speed that only the *Wired Telecom* network can provide, has managed to slow share loss in the high-profit

smartphone market since its launch two years earlier.

Knowing that competitors are investing heavily in their network infrastructure, executives at *Wired Telecom* are determined to retain customers in the postpaid market by developing additional exclusive services that further differentiate it from the competition. Ideally, they want to develop services that take advantage of the company's global presence – services that smaller, local telecom operators will not be able to offer. Matt agrees: this strategy of selling more services rather than more minutes and data plans is key to justifying higher prices and upselling customers.



"This could help *Wired Telecom* differentiate its offering while justifying premium prices"

Challenge: Making an informed recommendation

As the consumer portfolio manager, Matt is feeling the heat to reverse the market share decline that is taking a toll on the company. The executive management team is placing a lot of faith in – and pressure on – Matt to come up with winning services that help stem the losses without decreasing current contract prices.

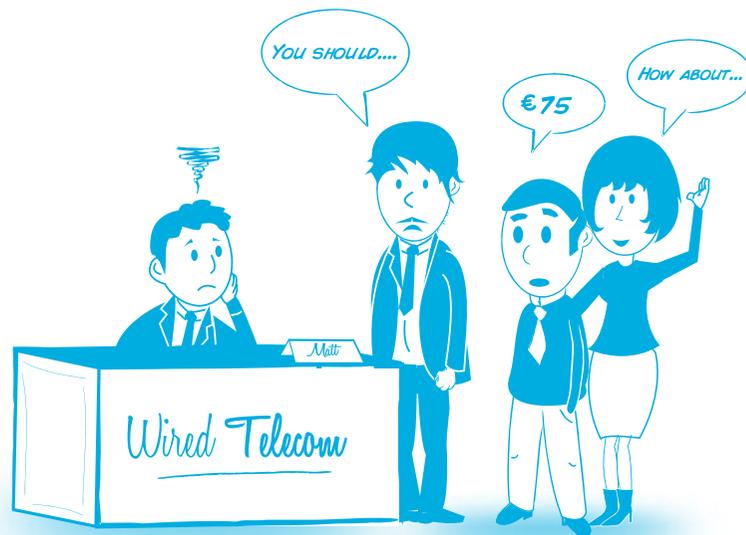
Based on some ad hoc qualitative research, Matt has ideas for optional services that may just do the trick. However, as is typical at *Wired Telecom*, every executive has dropped into his office proposing a sure-fire optional service of their invention. Matt has doubts about most of them, and he is quite worried that out of panic, management

may decide to introduce too many services to market at once, making it impossible to raise consumer awareness about any one of them in particular. He's not looking forward to keeping all those egos at bay.

Matt is also determined to continue offering the additional data service that has proven so popular, though he envisions it as a standard element in every contract. He feels that this could help *Wired Telecom* effectively differentiate its offering from the competition while justifying premium prices. Now he needs to finalize and justify his recommendations. While Matt believes in the value of market research, he's made some past decisions based on gut instinct.

He knows he was lucky that his hunches were correct, but with some – with so much riding on his next move – Matt wants to back his proposal with hard data.

Matt turns to Jason Wilder, the company's insight manager. Jason is charged with staying abreast of consumer needs and trends to help inform the company's product and service offerings. Matt is often amazed by how knowledgeable and up to date Jason is – especially considering he's a very proud and busy dad of triplets. While he's not sure how Jason can help determine the best plan of action in this case, Matt hurries to catch Jason before he has to run out to pick up his kids from pre-school.



"MBC can help determine response to offerings that feature more than 1 element"

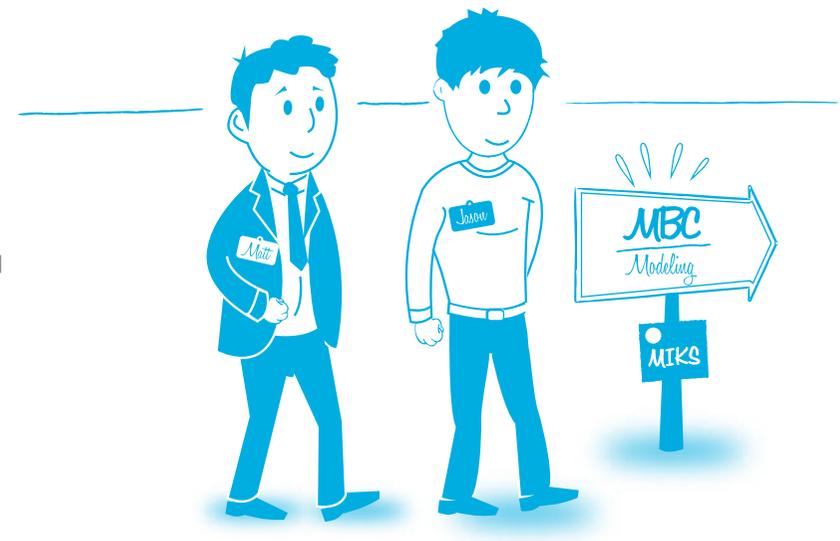
Approach: Trusting in a new market research methodology

The moment Matt walks into his office, Jason knows why he's there. Everyone in the company is aware of the pressing need for Matt to come up with new offerings that help *Wired Telecom* climb out of the hole it now finds itself in. When Matt explains the options he's considering – and the need to back his recommendations with concrete data – Jason says his timing couldn't be better. Just the day before, while he was at the mall overseeing his kids playing in the ball pit, Jason was reading about a new research methodology in a series of articles from his favorite market research supplier, *MIKS Insights*. Called Menu-Based Choice (MBC) modeling, this methodology can help *Wired*

Telecom determine response to various offerings that feature more than one element and the ideal price points.

As far as Jason understands, these insights will make it possible for Matt to recommend the best new service offerings, and even figure out the impact of including the unlimited data service as a standard feature. Matt can't believe his ears – this is just the type of research he needs to validate his recommendations! If the survey findings provide the insight he needs, he'll feel much more confident about making his proposal – and about rejecting executive suggestions!

He asks Jason to engage *MIKS Insights* for a market research survey. Jason wastes no time signing a contract with *MIKS Insights*, who quickly launches a survey with a panel of consumers. The respondents are asked to choose one subscription out of many available and customize it – if they so choose – by adding extra services. This exercise mirrors the real-world experience of consumers who must make choices and tradeoffs as they consider the portfolios of subscriptions and options offered by different providers before signing a contract.



"The report shows what the effect would be of offering certain options as standard"

Results: Offering new services based on consumer insights

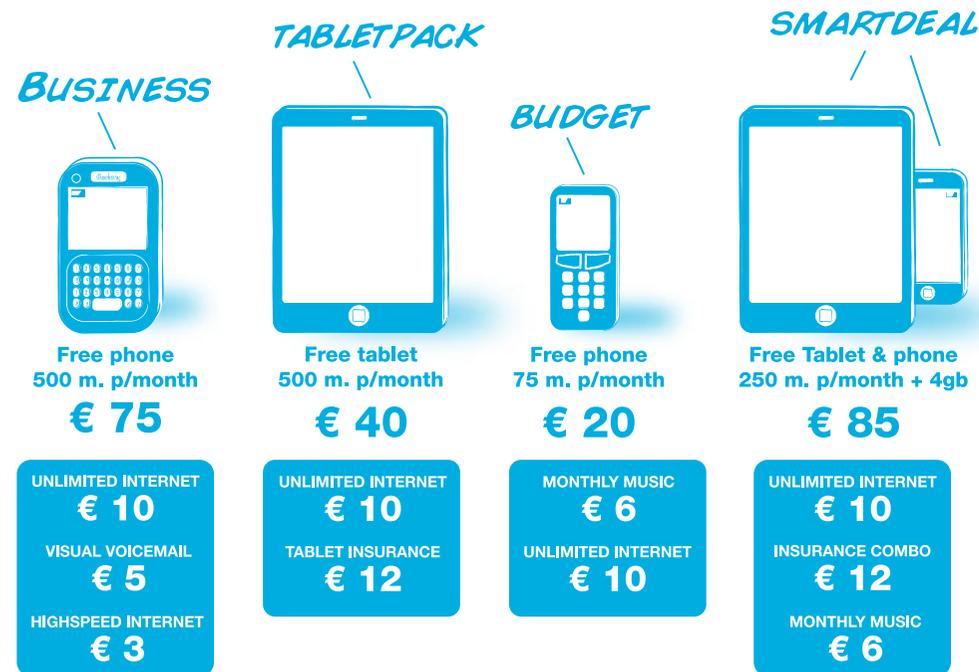
Once the survey is complete, the data analysts at *MIKS Insights* prepare a report with the findings. As soon as he receives the report, Jason arranges a meeting with Matt to review the results. Matt couldn't be happier! The report shows precisely how consumers will respond to the various service offerings Matt has come up with, and what prices they would be willing to pay. It also shows what the effect would be of offering certain options as standard in every contract.

With these findings in hand, Matt draws up a formal proposal to present to the executive team. He starts by explaining why it's wise to offer the unlimited speed option as a standard feature with a slight price increase. While some executives initially grumble

at this suggestion, they change their tune when Matt shows the results of the survey – and when the CEO raves about them. The research findings show that offering it as standard (while slightly increasing prices) has a positive effect on share and revenue.

Next Matt proceeds to show the effect of introducing new optional services. The company can gain a large share increase by simply introducing two new service options: high-speed unlimited data 24/7, and a combined subscription for smartphone and tablet users. The research shows these options will help *Wired Telecom* capture two additional consumer groups: young professionals and older customers who are not tech

savvy. This will help *Wired Telecom* broaden its reach while still appealing to the young customers who are already flocking to its services.



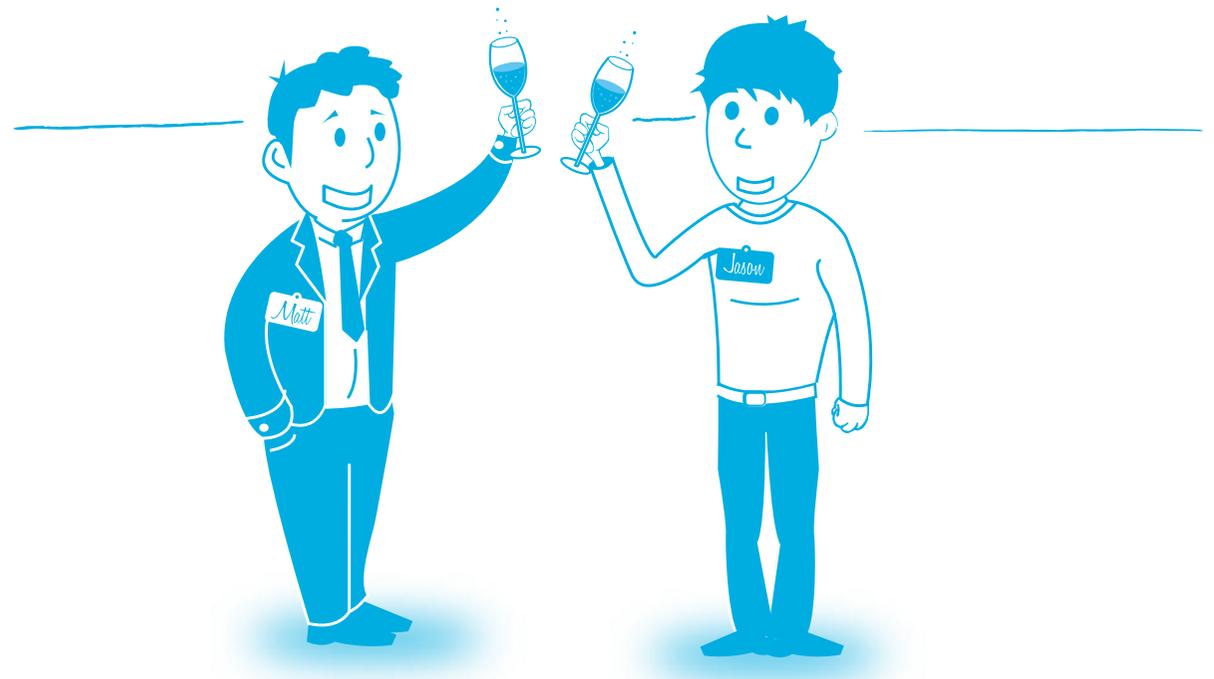
"Within 2 months *Wired Telecom* is seeing an uptick in its average revenue per customer"

Matt makes a strong case for not introducing more services – the research shows the incremental share gain would be minimal. He's so relieved to have the hard numbers to back up his argument! It's the one way he can win his argument against some of the pushy executives.

The VP of Marketing leaves the meeting with marching orders to launch a new campaign focused on these new offerings and the standard inclusion of the data plan. Within weeks, the company's ads are running in leading trade publications, on television stations, and across

relevant websites. The customer response is high and within two months, *Wired Telecom* is seeing an uptick in its average revenue per customer and its market share.

Matt takes Jason out for drinks to celebrate. They talk excitedly about the potential for MBC to contribute much-needed validation to the consumer behaviors that Jason monitors and to impact Matt's future portfolio decisions.





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 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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