

Freedom of choice

How to make your product fit for a market
full of choices

Robin de Rooij and Bill Salokar | February
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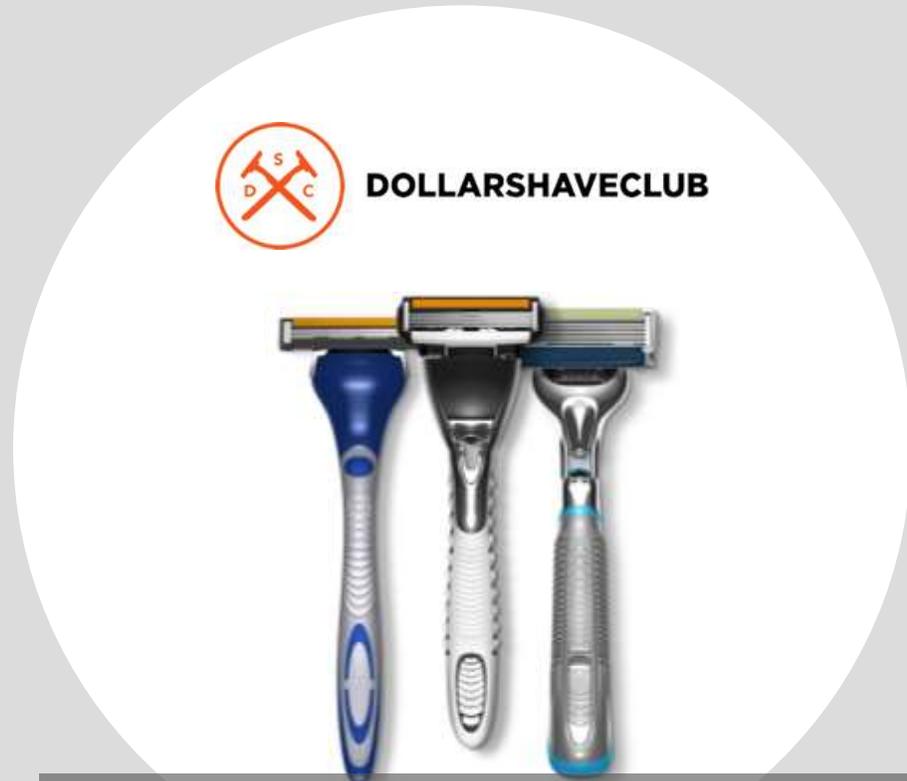




Decision dilemma

The biggest dilemma nowadays, when making decisions, is the enormous range of choices. This can easily lead to a decision dilemma for the consumer. To ease the decision process by limiting choices brings in the danger of not satisfying the consumer's needs. Providers are faced with the decision to either leave consumers with the biggest possible range of choices or with a limited set of bundles.

Predefined package



Freedom of choice



Here are two extreme examples of the balancing act between predefined packages (Dollar Shave Club only offers three simple products: a razor with 2, 3, or 4 blades) and freedom of choice for the consumer (with the help of NikeiD, each customer can design their own shoes according to their preferences).

Various markets



The examples of industries where consumers are offered predefined packages are various: Automotive, travel agencies, insurances, financial service providers, energy providers, telecommunication sector

| Case study



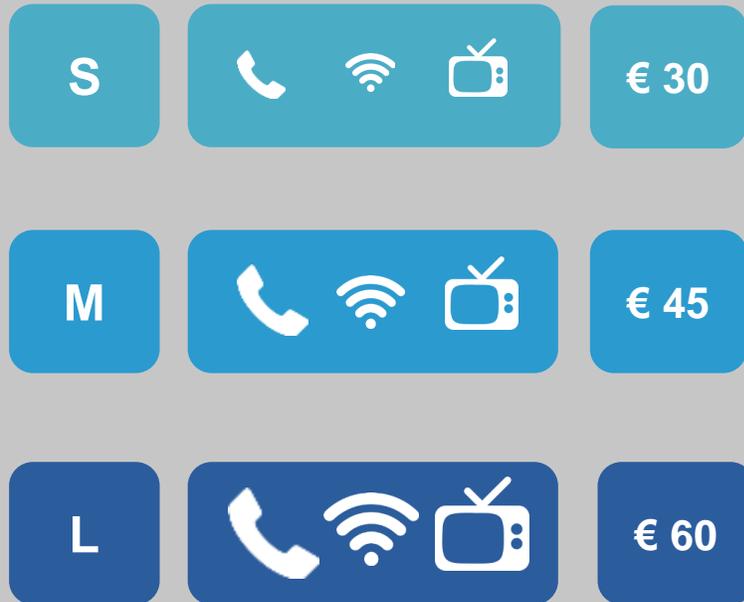
Telecommunication

A business case from the telecom industry, shows how we at SKIM help our clients in dealing with the challenges of decision dilemmas their customers face.



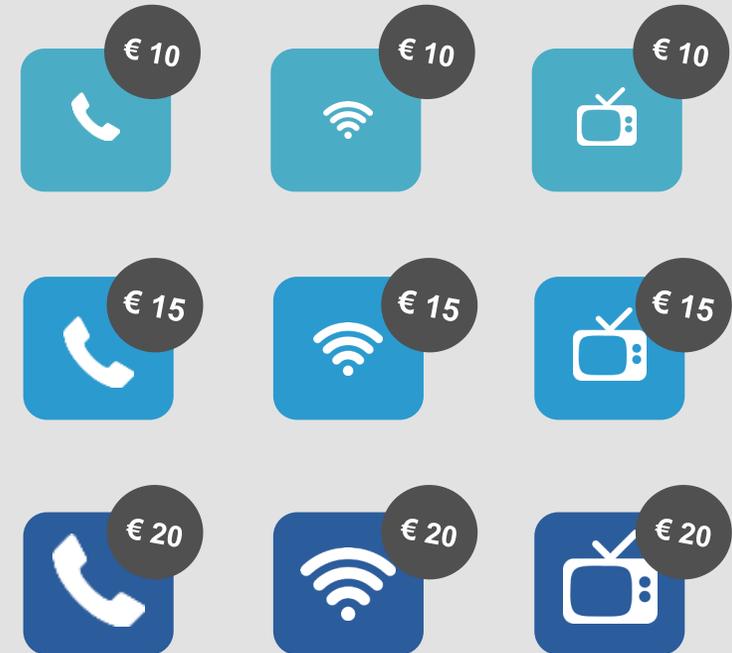
In most cases nowadays, consumers only have the choice between predefined bundles of internet, landline/mobile phones and TV. As a provider, it could be a good option to stand out from the mass of providers by giving consumers more freedom of choice to let them assemble packages according to their own needs.

Predefined package



VS.

Freedom of choice

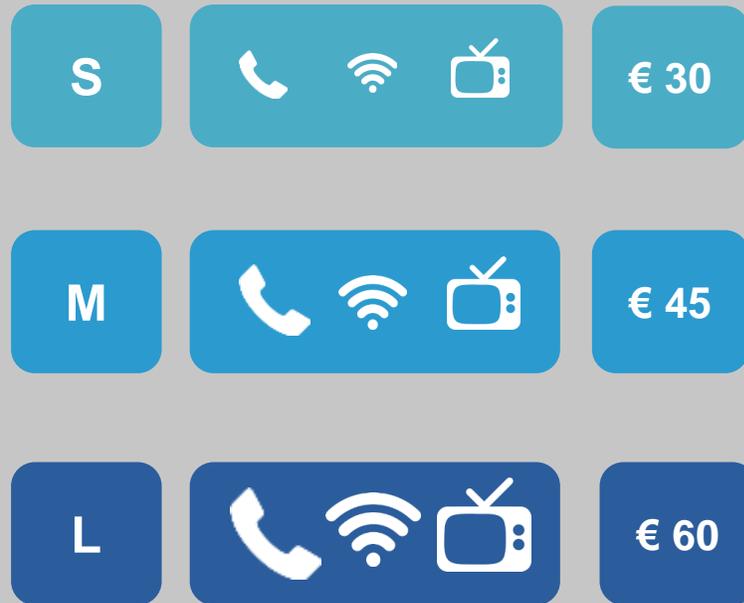


The consumer can choose between those two portfolio structures: Predefined bundles from which the consumer can pick from vs. Freedom of choice, so that the consumer can pick different elements according to their own needs.



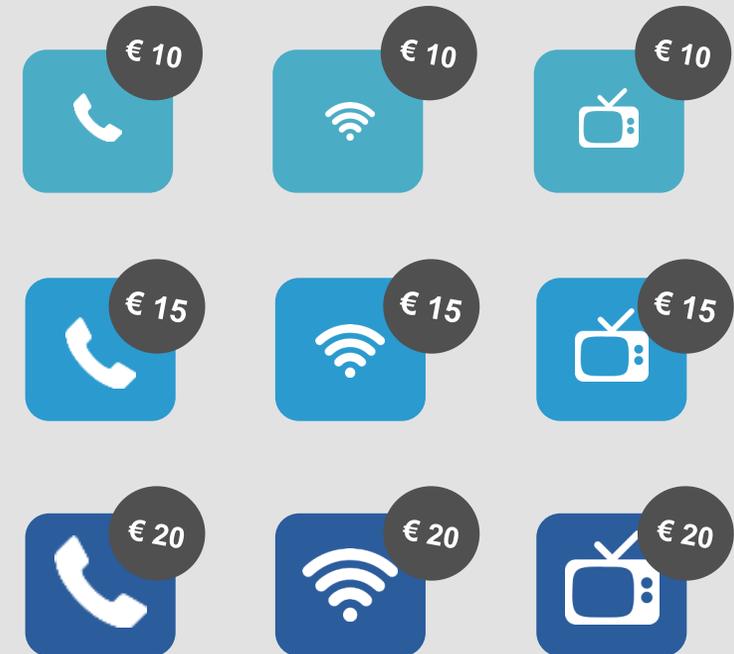
When it comes to deciding between the two portfolio structures, it's important to consider the following two questions: Which structure does the consumer prefer? What is the impact on sales and revenues?

Predefined packages

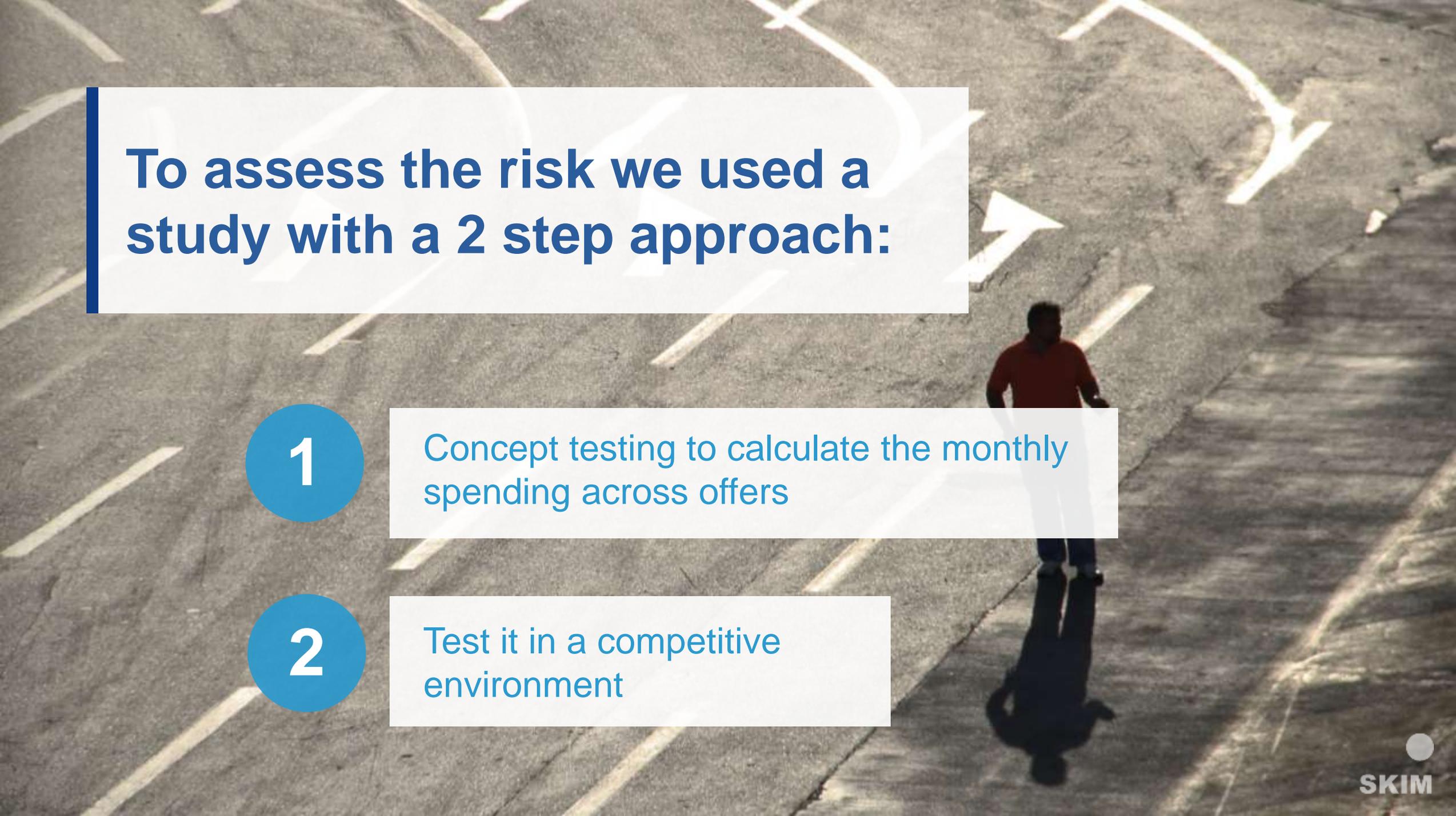


VS.

Freedom of choice



With predefined packages, the provider can “force” the consumer to pay for some elements that he/she doesn’t need. With freedom of choice, the consumer can choose to only pay for services he/she really needs, resulting in lower monthly expenses for the consumer.



To assess the risk we used a study with a 2 step approach:

1

Concept testing to calculate the monthly spending across offers

2

Test it in a competitive environment

1 | Concept testing

Predefined packages

S	  	€ 30
M	  	€ 45
L	  	€ 60

VS.

Freedom of choice

 € 10	 € 10	 € 10
 € 15	 € 15	 € 15
 € 20	 € 20	 € 20

As a first step, we conducted a concept test to calculate the average monthly expenses of the different portfolio options.

Predefined packages

S	  	€ 30
M	  	€ 45
L	  	€ 60

VS.

Freedom of choice

 € 10	 € 10	 € 10
 € 15	 € 15	 € 15
 € 20	 € 20	 € 20

The respondents made a choice between one of the two portfolio options.



Predefined packages

S	  	€ 30
M	  	€ 45
L	  	€ 60



Total € 45,-

VS.

Freedom of choice

 € 10	 € 10	 € 10
 € 15	 € 15	 € 15
 € 20	 € 20	 € 20



Total € 35,-

Subsequently, the respondents were asked which bundle or which specific elements they would buy. Depending on the choice, the monthly expenses varied.

2

Competitive environment

Provider A

S    € 30

M    € 45

L    € 60

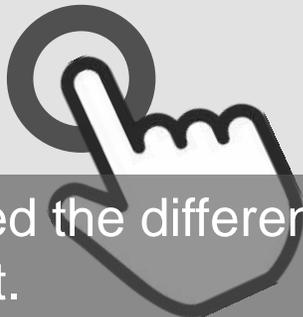


Provider A

€ 10  € 10  € 10 

€ 15  € 15  € 15 

€ 20  € 20  € 20 



Provider B

€ 10  € 10  € 10 

€ 15  € 15  € 15 

€ 20  € 20  € 20 



Provider C

S    € 30

M    € 45

L    € 60



In the second step, we tested the different portfolio structures in a competitive environment using choice-based-conjoint.

Provider C

S		€ 30
M		€ 45
L		€ 60

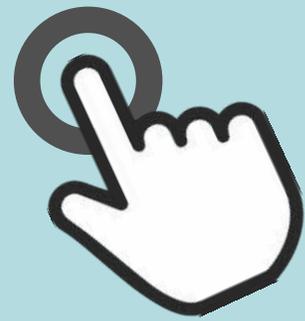


Provider C



Provider A

S		€ 30
M		€ 45
L		€ 60



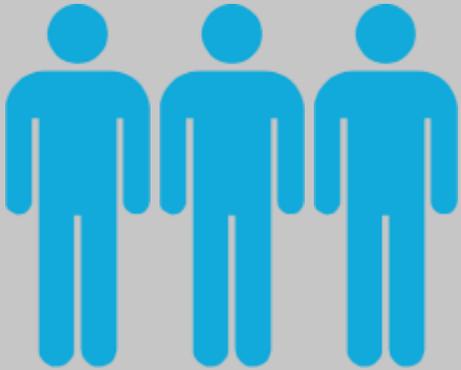
Provider B

S		€ 30
M		€ 45
L		€ 60

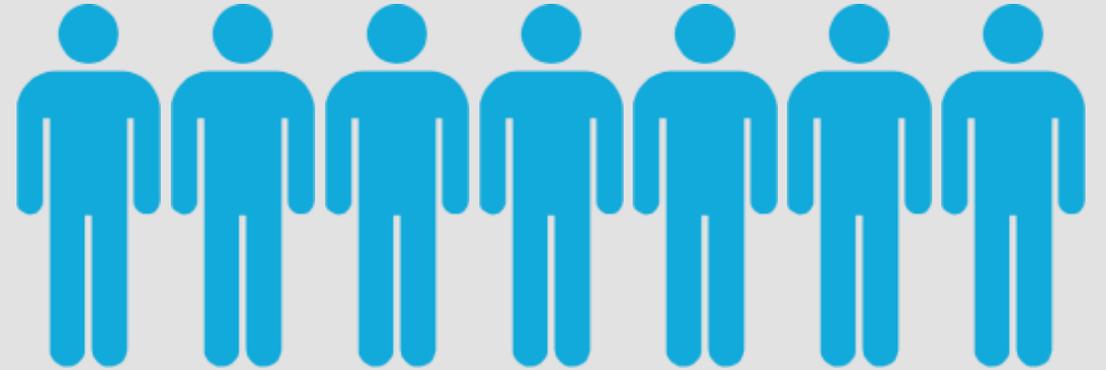


On changing screens, we varied providers, portfolio structures, prices and other features. The respondents were asked which offer they would buy given the available options.

Results



Predefined packages



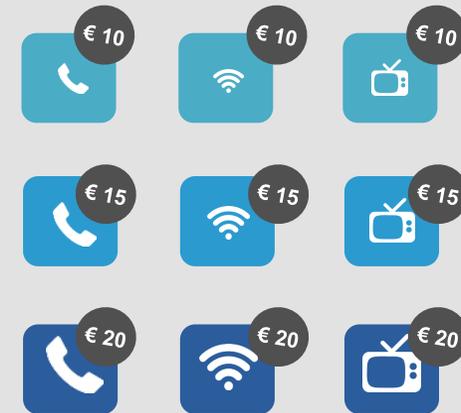
Freedom of choice

The majority of respondents preferred the portfolio structure which allowed them to combine single elements according to their needs.

Average spending



average € 45,-



average € 43,-

The average monthly expenses were only slightly lower for the portfolio structure allowing for freedom of choice than the average monthly spending on the predefined packages. Therefore, consumers try to optimize their choices for elements towards a lower average monthly expense. However, when given freedom of choice, consumers tend to often choose the more expensive elements.

Sales Potential



**Old predefined
packages sales**

X 3



**New freedom of choice
SKIM sales forecast**

The new portfolio structure has the potential to increase sales by 300% – given that the provider is the only one on the market offering this freedom of choice structure.

Revenue Potential



X 2,8



**Old predefined
packages revenues**

**New freedom of choice
SKIM revenue forecast**

There is a similar level of potential for revenue; again, given that the provider is the only one offering this portfolio structure on the market. The lower average monthly expenses are compensated with an increase in sales volume.

Freedom of choice **preferred?**



Freedom of choice **higher spending?**



Freedom of choice **higher shares?**



Freedom of choice **higher revenues?**



In summary, the results show the potential of a portfolio that leaves the maximum freedom of choice to the consumer that offers him/her the chance to choose elements according to his/her preferences and needs.

Contact us



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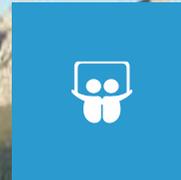
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