

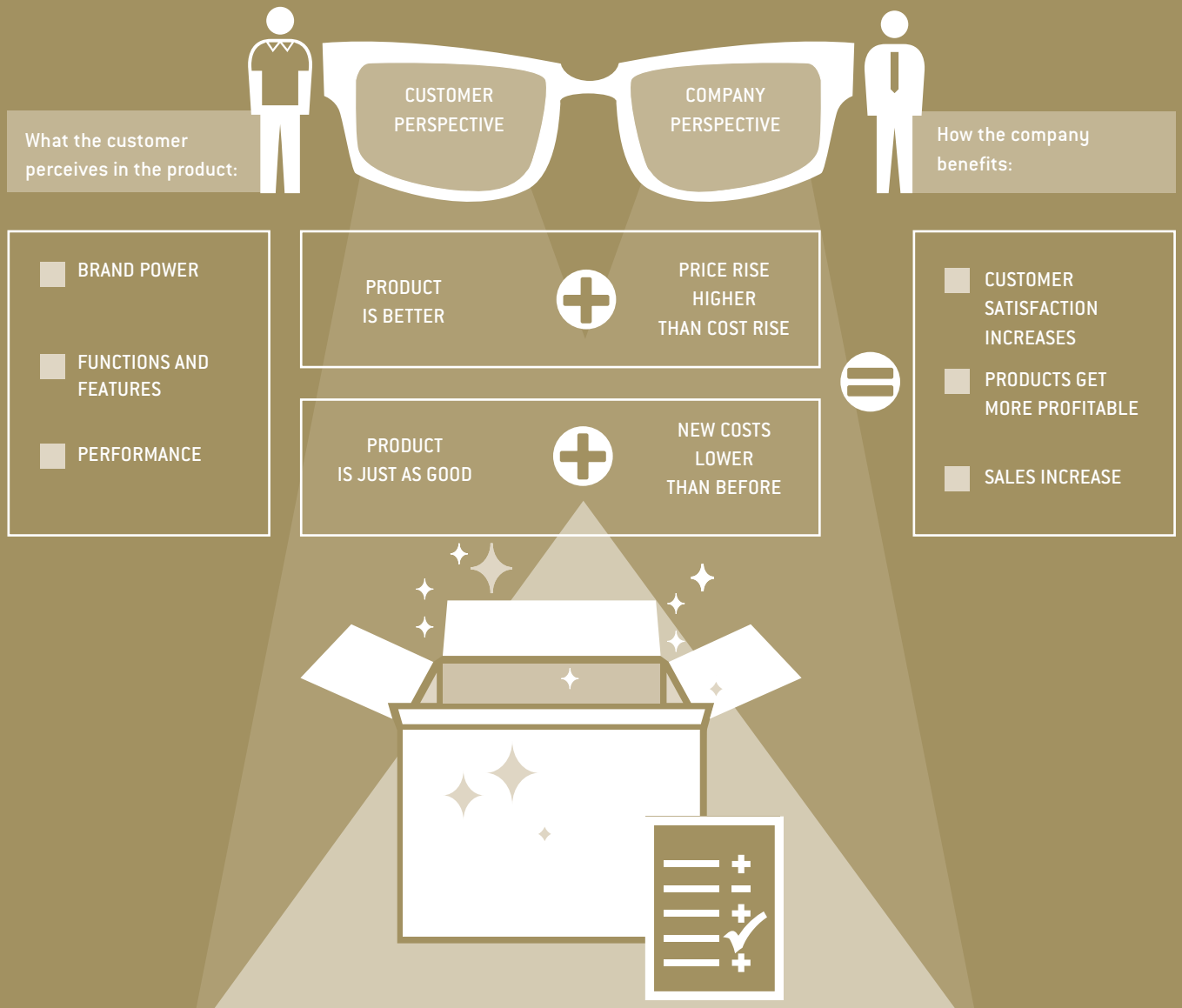
think:act CONTENT

Fresh thinking for decision makers

Product Value Management | Better products
| With more satisfied
customers | Using
higher prices and lower
costs to make products
more profitable | Is this
possible? | If yes, how?

FOCUS ON THE PRODUCT

THE PRODUCT VALUE FORMULA IS BASED ON A DEEP UNDERSTANDING OF CUSTOMERS AND THEIR NEEDS



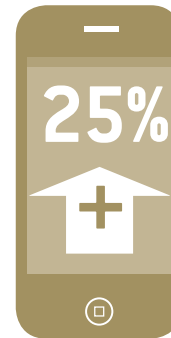
Mobile communication is one of the most fiercely fought over branches of industry today. Even iconic brands that became market leaders just a few years back now fear for their existence. Research In Motion (RIM), the Canadian inventor and producer of the legendary e-mail push service BlackBerry, saw its revenues drop by a third in the second quarter of 2012 compared to the previous year, with quarterly losses of around half a billion dollars. Its share of the market for smartphones fell from 44% to 10% within just three years. Likewise, Finnish mobile telephone pioneer Nokia saw sales of its mobile devices shrink by a quarter and suffered quarterly losses of EUR 1.4 billion. With sales of just 10 million smartphones, Nokia has now slipped far behind Apple (35 million iPhones) and Samsung (44 million).

Samsung as market leader? Yes, things are changing even at the top of the industry. Apple can no longer rest on the laurels of its much-lauded design, user friendliness and feeling for customer wishes. It, too, is facing serious competition. Samsung not only sold approximately 25% more smartphones than Apple in the second quarter of 2012, but the new model generation is also giving Apple pause for thought. The iPhone 5, released in fall 2012, has to match up to Samsung's recent Galaxy S III, which has set new standards in terms of display size, resolution, processor power and voice and face recognition capabilities – and all at a substantially lower price. It remains to be seen what new functionalities Apple products will offer or whether its brand strength will be enough to attract sufficient numbers of customers willing to pay its premium prices.

THE BALANCING ACT BETWEEN PRODUCT PERFORMANCE AND PRODUCT COSTS – NOW ENTERING A NEW PHASE

More and more functions, expanding technical scopes and additional design elements shorten the product lifecycle, keep existing customers excited and capture the imagination of new customers. They also make or break manufacturers – especially in mature B2C industries. Here, manufacturers have to constantly reinvent their products to stop them going stale, be they telephones, washing machines or automobiles. Not even market leaders are immune to this process, as Apple's struggle to maintain market leadership shows. The same goes for B2B business. Engineering companies are now reviewing the functionalities of their machinery much more frequently than in the past. They need to find out what each function costs and whether it offers true value for money from their perspective.

UP AND DOWN: EVEN INDUSTRY ICONS FEEL THE PRESSURE



Q2 2012: Samsung sells 25% more smartphones than Apple

DESIGN TO COST OR DESIGN TO VALUE?



Read more in COO Insights: "Design to Value"

Consumer goods or capital goods, electronic items, household appliances or almost any other branch of industry: targeted and cost-effective product development is critical for success. At the end of the day, products must offer the right functions, properties and materials – meaning those that customers value and are prepared to pay for. If the products also manage to have low production costs, the manufacturers can quickly achieve large returns. But for many companies that seems impossible, given the increasing speed of technological change, better informed customers and above all new competition from players based in developing countries. Companies have had to abandon their former "design to cost" mantra, according to which costs determine the direction of development. However, this often means overlooking factors such as what functionalities, performance and applications customers actually expect and are prepared to dig into their pockets for.

PRODUCT VALUE MANAGEMENT – FOCUSING ON PRODUCT DEVELOPMENT AS WELL AS COSTS

Some companies have begun paying much more attention to what their customers want in their product development process. Roland Berger Strategy Consultants has drawn on its cross-sector experience in optimizing products, product costs (i.e. cost of goods sold, COGS) and value chains to develop a new concept called "Product Value Management" (PVM). This concept is also the subject of an academic study carried out at the Brandenburg University of Technology in Cottbus.

PVM is based on the idea of consistently offering customers exactly what they want in terms of functionality, product characteristics and factors such as prestige – at a price that customers are prepared to pay based on the value they receive in return. At the same time, costs are kept to a minimum.

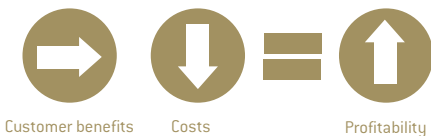
TWO PATHS TO SUCCESS

Case 1: Increase product benefits



There are two basic ways of optimizing customer benefits and manufacturer profitability at the same time. The first is for the company to increase benefits for the customer in key categories (e.g. functionality, brand, performance), to the extent that the customer actually wants and is prepared to pay for. However, the increase in price must outpace the rise in costs. In the second way, the benefits for the customer are not changed, since they already meet customer expectations. Instead, the company eliminates product features that the customer doesn't care about or actively dislikes. In this case, customer satisfaction remains constant, costs decrease, profitability rises.

Case 2: Keep product benefits the same



Ideally, companies can apply a combination of the two solutions, integrating desirable, value-added features into the product at the same time as eliminating undesirable functions, thereby reducing costs and boosting customer satisfaction and profitability at a stroke. This is Product Value Management. Practiced in a consistent fashion, PVM helps

achieve greater customer satisfaction, optimum product profitability and ultimately leads to higher margins and sales, by determining the right product design at appropriate product prices and costs.

OPTIMIZATION IS POSSIBLE IN MANY DIFFERENT INDUSTRIES – SOME EXAMPLES

Let's take an example from the automotive industry. A few years ago, premium automakers introduced the panoramic sunroof, a highly popular alternative to traditional sunroofs. The new tinted glass sunroof was developed in line with customer wishes and allows the manufacturer to add a number of optional extra functions that customers in turn must pay for. This is good news for manufacturers, as the margins on the product are around 40% higher than those on standard sunroofs.

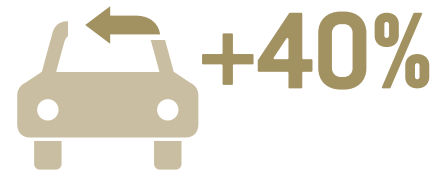
Here's another example, this time from the machine tools industry. Gildemeister, a leading producer of cutting machines, recently discovered that design is a highly relevant purchase criterion in its industry. It quickly engaged an industrial design agency to develop optimizations for a series of milling and turning machines. The agency suggested introducing bigger monitors that met certain design criteria, glass housing for parts of the machinery and ergonomic improvements that made the machines easier to handle, safer and more enjoyable to use. These changes also improved staff's identification with their jobs and reduced machine downtime.

Or take innovative baby buggy producer Bugaboo. The firm took a close look at what young parents really wanted. They then remodeled the baby buggy as a "lifestyle object". Thanks to the lightweight and innovative construction techniques used in the wheels, the buggies are easier to maneuver. The company also built in a donation of 1% of its total revenue to an AIDS charity in Africa. This helped the company achieve a market share of 20% in Germany within ten years after it was founded.

A FOUR-PHASE PROCESS WITH A CONSTANTLY CHANGING PERSPECTIVE

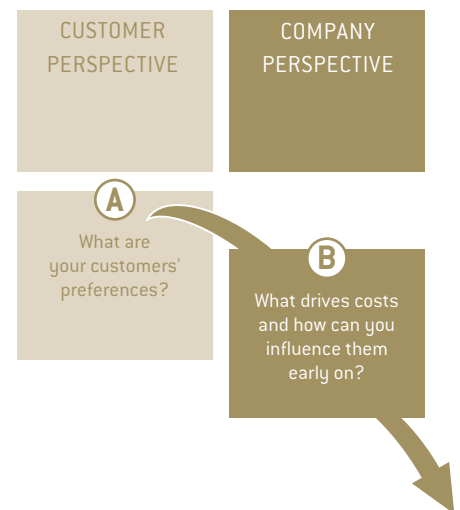
PVM is a four-phase process for optimizing product design. In each of the four phases, the perspective shifts – from the customer to the company (and implicitly to the supplier), then back to the customer. Phase A takes a customer perspective. The company systematically investigates customers' needs and desires, whether openly articulated or not, and their willingness to pay for them. The hierarchy of customers' needs is critical here, as it allows the company to establish priorities as well as distinguish different customer groups with different needs. The company then translates these customer needs into technical characteristics, materials or specifications.

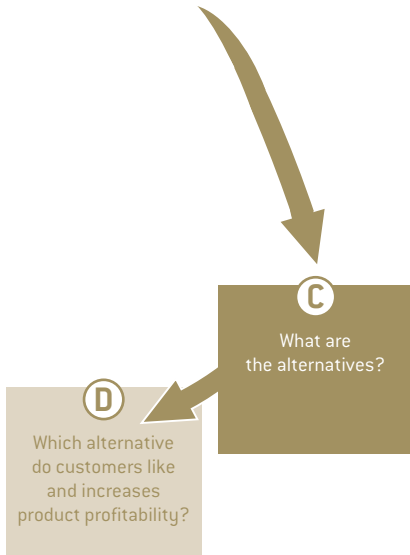
KNOW WHAT CUSTOMERS WANT



Boost margins by integrating customers' wishes

A CHANGE OF PERSPECTIVE IS NEEDED IN THE PRODUCT DEVELOPMENT PROCESS





Source: Roland Berger

In Phase B, the perspective shifts from customer to the company. Phase B examines the solutions that already exist for the customer needs identified in Phase A. It is important for the company to identify cost elements for each product and service and the cost drivers that lie behind them, evaluating them in light of the competition.

Phase C takes the findings of Phase B and uses them as a basis for developing alternative solutions for the prioritized customer needs – solutions that will make customers happier and the product more profitable. At this stage the company should get its suppliers involved, as well as looking at what the competition is up to. The results are potential alternatives for the product's functions, materials, aesthetic qualities (its look and feel) and other relevant value dimensions. In the final phase, Phase D, the customer perspective again comes to the fore. For each of the alternative solutions developed, the company analyzes the value as perceived by customers and their willingness to pay. On this basis, it can then determine the optimum solutions in terms of value from both a customer and company perspective.

We have developed a modular system of methods for each of the four phases of Product Value Management. Which of the 10-15 methods for each phase delivers the best results depends on the specific constellation of company, industry, type of business and other factors. The following are two examples of methods that can be used in the early phases of PVM.

"Value-based featurer" is a useful method for Phase A of PVM. It is a way of recording detailed customer preferences, translating them into customers' willingness to pay and then projecting them onto product elements. The goal is to establish a customer-centered basis for the subsequent optimization of product components. This method, based on conjoint analysis, identifies and prioritizes customers' expectations of a product – the scope and performance of its functionalities, its physical characteristics, its look and feel, its longevity, and so on. Based on the relationship between the product's characteristics and its different elements, it is then possible to derive customers' willingness to pay for each individual product element.

METHODS: THE MORE THE BETTER



Successful projects use 20% more methods on average – but the "right" ones at the "right" time

Source: Roland Berger

A traditional method that firms can use in Phase B of PVM is "product teardown analysis". This involves breaking products down into their separate components: the company's own products, competitors' products and sometimes other products with a similar function. This is done in the laboratory. The company then clusters the different components into functional groups. It now systematically analyzes each cluster, looking at the performance of different functions and technical characteristics such as materials, weight and so on, across products. It then assesses these differences in terms of cost differences. Finally, teams working in cross-functional workshops use the analysis results to derive ideas for how to improve the company's own products.

However, it is critical that the "right" methods be used consistently at the right time, in the right sequence and across functions.

Research at the Brandenburg University of Technology in Cottbus backs up our findings. An empirical study of 410 product development projects at different manufacturing companies looked at what the most successful methods used in product development were, when they were applied in the process, and what other factors were important. The research found that success depended on the scope and intensity with which methods were used, a cross-functional approach, and a comparatively short product development time. Other general factors also played an important role, such as full support for the project from top management and the structure of the product development process.

SEVEN SUCCESS FACTORS FOR PVM

- 1. Focus on target customers** – define customer groups and market segments accurately, carefully distinguishing each group and segment
- 2. Understand customer value** – get to the bottom of customers' needs, whether openly articulated or not, and how they use the products in question. Look at the whole range of customer needs, including both functional and social requirements
- 3. Choose the right methods and combine them intelligently** – getting the right mixture of methods in each phase of the optimization what makes the difference between improving and optimizing
- 4. Take a cross-functional approach** – don't just involve all the relevant functional areas early on: act in a truly cross-functional manner. For example, get the product management team involved in a product teardown workshop alongside the technical team
- 5. Think in terms of alternatives** – think outside the box when generating ideas
- 6. Execute in a consistent manner** – look at the financial impact and act accordingly
- 7. Anchor the principle of PVM firmly in the product development process** – support it with appropriate change management methods

CONCLUSION: PHILOSOPHY PLUS METHODOLOGY

Perhaps most important of all, Product Value Management is not an optimization tool with a limited shelf life. It won't be replaced when the next new methodology comes along. Instead, it is a philosophy that needs to be rooted deep in the consciousness of the company. The core of the concept is the idea that every detail of the product can be improved – primary or secondary function, core or complementary product – by switching between a customer perspective and a cost-oriented company perspective. Applied consistently, PVM brings together two things that truly belong together: happy customers and profitable products. Improved sales and revenue are the next logical result.

READ MORE



The use of methods in new product development. An empirical study of the framework conditions and implications. Dissertation, Brandenburg University of Technology, 2012 by Dr. Marc Graner, Senior Consultant, Roland Berger Strategy Consultants

IF YOU HAVE ANY QUESTIONS,
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