

Business in-class 1/15/15

Attractiveness Scores: Customer Survey Score (CSS)

7 criteria:

1. Product position (performance and size)
2. MTBF (mean time between failure)
3. Price
4. Age (years since initial introduction)
5. Awareness (how aware your customers are about your products)
6. Accessibility (how easily your customers are able to find/purchase your product)
7. Accounts Receivable policy (your customers' ability to purchase your product on credit)

Attractiveness Scores:

Attractiveness scores represent market research that has been done for you and provided for your use

Profit Maximization:

Setting prices so that total revenue is as large as possible relative to total cost

Who are my customers?

Segmenting Markets: Target Markets

- What are the market segments in Foundation
- In terms of units sold, what is the largest (smallest) market segment in Foundation
- How fast is demand growing in the low tech segment? High tech segment?

Marketing:

- Who are your potential customers?
- How big is the market?
- How fast is it growing?
- Can you usefully group your customers?
- What do they want from you?

The four Ps+Service:

- Product: What are the product characteristics
- Price: How much will they pay?
- Place: Where do they buy my product?
- Promotion: How do they learn about my product?
- Service: What level of service will I experience

The Impact of Service:

The service element can be particularly influential for “commodity” products—those products that are similar to each other without meaningful differentiation

Product Questions:

What do they want?

1. What are the characteristics of the product that are important to costumers?
2. What is the most important product characteristic in the low tech segment?
In the high tech segment?
3. What is "perceived age" of a product?
4. How is reliability measured?
5. What will increase material costs?

What are the characteristics of the product that are important to customers?

Electronic sensors

- Size
- Performance (Processing speed)
- Reliability (MTBF)
- Age: how recently has it been updated

Segment Criteria Ranking:

What is the most important product characteristic in the low tech segment? In the high tech segment?

Low tech

1. Price
2. Age
3. Reliability
4. Positioning

High Tech

1. Positioning
2. Age
3. Price
4. Reliability

Age: Low tech

General Questions:

- How do you manage age?
- What is the ideal age?

Management questions:

- What is the ideal age range?
- When do you revise a low tech product to manage age?

Perceived Age:

What is the perceived age of a product? You introduce a product on July 1, 2010

- On July 1, 2010, it is 0 years old
- On December 31, 2010, it will be .5 years old
- On Decemeber 231, 2011, it will be 1.5 years old

Your reposition (change the size and/or performance) and the revision date is July 1, 2010

- On June 30, 2010, it is almost 2 years old
- On July 1,2010 its perceived age is cut in half ($2 \cdot .5 = 1$)

*Foundation rule- A change in size/or performance to an existing product creates a revision date that appears on the spreadsheet. When that date occurs, the age of the product is divided by two to reflect the new and improved status of the changed product

Pricing:

What is the trade-off?

Revenue= price per unit x number of units

-Higher price= more revenue per unit

Higher= fewer units

-Lower price- less revenue per unit

Lower price= more units

Strategy:

Create a company that will allow you to compete on price (lower your prices) and still meet your performance targets

-Lower your material costs

-Lower your labor costs

Marketing Strategies

Pricing strategy

-Impact: Volume

-Impact: Marginal revenue

What is the difference between your price and unit cost? Contribution margin per unit

Promotion and Sales

-Impact: Increased period costs and sales

Promotion and Awareness:

Promotion= your message

Awareness= percent of market that received the message. Lose 33% awareness/year
promo budget replaces (diminishing returns)

*Foundation rule- One-third of the costumers that have seen a promotional tactic in the past year, are unable to remember the purpose of that promotion

Mean Time Between Failure (MTBF)

How is reliability measured? MTBF

How long can I expect your product to reliably function?

1. Take 200 sensors—plug them in and run them—count the hours before they fail
2. Calculate the average (arithmetic mean) time between failures

Managing Low Tech MTBF

Range: 14,000-20,000 hours

Tradeoff:

- Higher the MTBF, the greater the demand (limit: until the top of the range)