White Paper

Market research – Voice of the Customer

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A. Background

RDP has worked with thousands of companies over the last 25 years, specifically as it relates to developing new products. The purpose of this white paper is to review the value and use of marketing techniques, to gauge the market size and sales opportunities for new products to be developed.

RDP surveyed 20 firms, with most firms having between 30 to 100 staff. All of these firms were investing in software development and other advanced technologies to provide a software or technological product, or service, to a wide variety of industries. Loosely these firms can be described as part of the knowledge based industry.

The particular questions that RDP sought data to answer were;

1. What types of marketing techniques or activities do companies carry out to assess whether to proceed with developing a new or substantially improved product?
2. How important is this information to companies?
3. What tools are used to gather this market information?
4. What return on investment calculations are made by companies to determine the success of these marketing activities?
5. How do companies rank the value of these activities or methods?
6. How does this group compare to larger surveys or studies in the area across a more diverse group of companies?

B. Market Research Methods

The specific marketing techniques surveyed were broken down into 3 areas;

1. Voice of the Customer
2. Open Innovation
3. Strategic Methods

Trending, big data, and market size calculations were excluded from this survey. While this information is interesting, most in our sample space did not have formal methods or resources to develop this information on their own. Further, this information provides more correlational data and not whether specific customers will actually purchase a new product. In other words defining the market size and the type of customer is important (and most companies are aware of their market and size of customer base) but it is the insight obtained from other sources as to whether a company within that key market group would actually buy the new product.

i) Voice of the Customer (VOC)

This term was popularized in the 1980's when stage gate and other similar approaches to new product development were introduced. The premise is that understanding how the customer uses a product, their pain points and candidate feedback will provide solid predictive market information on the success or failure of selling new products.

The following VOC methods were surveyed;

1. Customer visits
2. Focus groups
3. Ethnography research or " camping out"
4. Lead user analysis
5. Customer or user designs
6. Customer brainstorming
7. Customer advisory board or panel

ii) Open Innovation

While open innovation is relatively new term, the methods sampled are well known. The idea here is that by gathering information in an open market environment, data can be collected to predict success of the new product sales. The methods reviewed were;

1. Collaborating with Partners and Vendors
2. External product designs
3. External submission of ideas
4. From Start ups

iii) Strategic Methods

These are "top down" management sanctioned methods for gauging the market;

1. Following and capitalizing on disruptive technologies
2. Patent Mining
3. Internal Idea capture

C. Results and Observations

The various methods above are ranked in Appendix A. The Chart illustrates how market research strategies are distributed among the companies we surveyed, indicating the percentage of companies that use a given strategy. Appendix B similarly breaks down each type of market research method to convey which strategies are most popular among the companies we surveyed.

i) Voice of the Customer – Nothing Beats Talking to the Customer

Customer Site Visits

The general consensus was that customer visits ranked highest in frequency of usage and very high in value. This method ranked number 1 overall.

Some of best practices and techniques in this area were;

1. Sight visits should be done by internal staff and not outsourced unless the firm wanted assistance in the initial set up, training and design of the visits.

2. A structured and well-crafted conversation guide is essential. Questionnaires and templates covering topics, questions, need functions, benefits and features ensure completeness and consistency of visits and data gathered.
3. Open ended questions are important to ask such as “what keeps you awake at night or what really bothers you about the result you are trying to achieve using our product”?
4. Numerical ranking of visits are important to provide a benchmark against future visits and comparison to others. Simple ranking scales out of 10 work best. For example “How do you rank the ease of use of product on a scale of 0 to 10 with 10 being extremely easy to use?”.
5. If possible do a walk about after the visit to see how your customer uses your product.

Ethnography or “Camping Out”

This method involves observing customers for extended periods of time, and watching and probing as they use and misuse the product. While this method is considered highly valuable, its use as a method is low. This is due to;

- It is a time consuming and expensive endeavor for the customer and company
- The individuals carrying out the observation must have the skill set to carry it out
- In some situations it may not be practically feasible to carry it out

This method, however, can provide the deepest insights into users unmet and unarticulated needs. This is where disruptive ideas can arise.

As this is a relatively new area, there a few best practices to truly reduce the time and costs. Two good books on the subject which outline strategies and tools are *The Moment of Clarity by* Christian Madsbjerg and Mikkel Rasmussen and *Creative Confidence* by Tom Kelly and David Kelly.

Customer or User Designs

Under this method, customers or users are invited to help the product developer design the next new product which will add new perspective and ideas for improvement. This method is not to be confused with customer visits where customer’s needs and pain points are questioned. Under this method the customer has a more formal role in design.

Lead User Analysis

The method here is to work with key innovative customers to identify problems, solutions and opportunities. Some participants use this method. They find that there leading edge customers better understand their product and use it in advanced ways to obtain the best use of the product.

One best practice to assist in this area is to find out which customers modified the company’s product and why. These customers tend to provide better feedback on changes required or opportunities to investigate.

Customer Advisory Board or Panel

While this method had been around for many years, it is not widely used. While the method was good for maintaining customer relations, the meetings typically fell into discussions sessions and few real solid product ideas came out of them. This may be due in part to the lack of structure and focus of the meetings themselves.

Focus Groups

Focus groups are run with customers to identify needs, wants, problems, pain points and suggestions for new products. The focus group will typically have a moderator who guides the session.

This method is somewhat similar to customer visits in that the idea is to dive into the customer desires, although typically this method used more in the consumer goods market.

The advantages of this method is that it can be cost-effective and time-efficient. However some of challenges and best practices are;

- The moderator must be skilled in focus groups, product knowledge and cost. This method may lend itself more to outsourcing.
- The best size group is 8-12. Techniques such as the talking stick help to ensure everyone participates and no one person dominates the discussion.
- Due to the small group size the information is more qualitative then quantitative.
- Focus groups can be carried out at trade shows, to get good cross section of customers, just ensure competitors are not invited.

Customer Brainstorming

Again some respondents said this was done at customer site visits but generally not in a structured way. Some best practices are as follows;

1. The first session is gather customers in a group setting and start with one general question such as “How can we improve our product” or “What is wrong with our product”.
2. Attendees should write down their ideas on sticky notes, one idea per sticky note.
3. Generally allow about 10-15 minutes for this exercise. Repeat the exercise after having each customer share one idea.
4. Later on group similar ideas and categorize ideas into separate areas such as functionality, cost, ease of use etc.
5. Form teams and add in one company person to each group.
6. Take the top 3 greatest deficiencies and problems and brainstorm about 30 minutes on each problem.
7. Each team then reports their findings.

ii) Open Innovation

Partners and Vendors

Some companies have a strong network with vendors and rely on market information and feedback from these partners. Within open innovation this is the number one method. In some businesses vendors have a wider view of the market and can provide valuable feedback. However this does not apply to all companies and is somewhat dependent on the product or service being offered by the company.

External Submission of Ideas, External Product Designs and Start Ups

Given the size of the companies that participated in the survey, little use was made of these methods.

iii) Strategic Methods

Patent Mining

A few companies check in on patents to see what is out there. However this method is time consuming and requires structure and sound industry knowledge to carry out effectively. It does help those companies where proprietary technology is important understand what is out there to compare to their own product.

Disruptive Technologies and Internal Idea Capture

Internal idea capture was used informally by some companies. Few companies monitored disruptive technologies in formal way other than keeping informed through web searches, trade shows or industry associations.

iv) Other surveys

A survey covering these market research methods is presented at Appendix C. This survey was carried out in 2010 with 160 companies. The companies in this survey were much larger than our survey. However it provides an overview on a broader scale of companies' usage and valuation of these methods.

The Chart pits the vertical axis which is the effectiveness of the method against the horizontal axis which ranks how often the method is used. These companies had the resources to undertake all these methods so it can provide insight for SME's as to the benefits and value of the methods.

There are however some results that are consistent such as the value and usage of customer site visits and ethnography. The main difference however appears to be the degree of a formal process and utilization of techniques and tools.

D.Conclusion; Comments, Suggestions and Feedback

Apart from the comments above other facts and feedback gained from the survey are as follows;

1. On average companies spend less than 1.2% of the total product development budget on market research, see Appendix D.
2. Most companies described their market research methods as informal.
3. In ranking the importance of market research, the average score out of 10 was 7 where a score of 10 was extremely important and critical.
4. Within this ranking, were we asked the about the important of feedback on customer usage and satisfaction, the average score was 8.5 out of 10.
5. Most companies felt they would pursue market research information in greater detail if the processes and costs could be streamlined and reduced.
6. Big data is of interest to survey participants but had not been applied in a formal way.

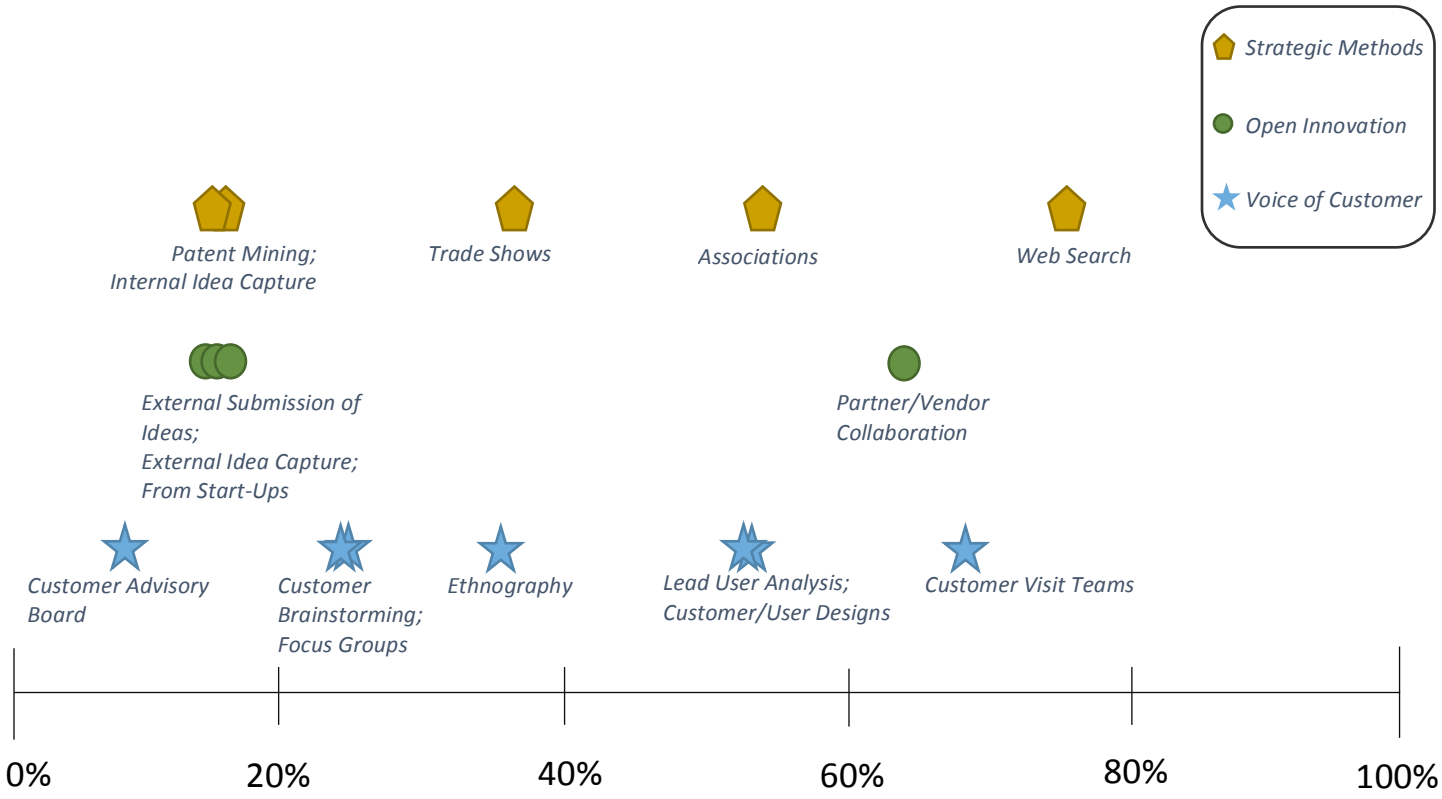
Predicting how the market will react to a new or improved products or services continues to be a challenge. We suspect the ranking of market research is lower than customer feedback and usage because the tools and techniques are inadequate to produce any reliable data.

There continues to be a strong focus on customers, their needs, pain points, experience, likes and dislikes. However even in this category processes are informal and no standardized techniques or tools are used.

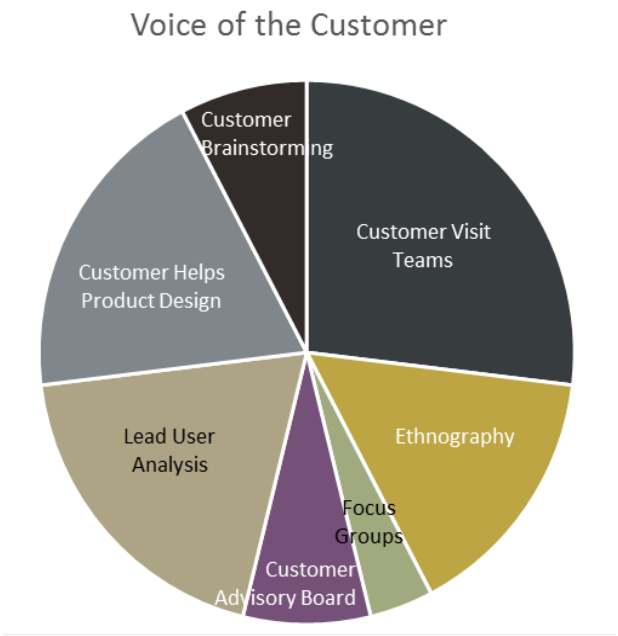
Large companies such as Intel spend and develop formal methods in this area, complete with strategy, processes and tools. While some the these methods used by larger companies are cost prohibitive, SME's could benefit from investigating and testing a more formal approach. The v-Pro microprocessor launched by Intel in 2006, was the result of a new formal voice of the customer strategy. This product became the fastest growing product in Intel's history, and has exceeded $1B in revenue.

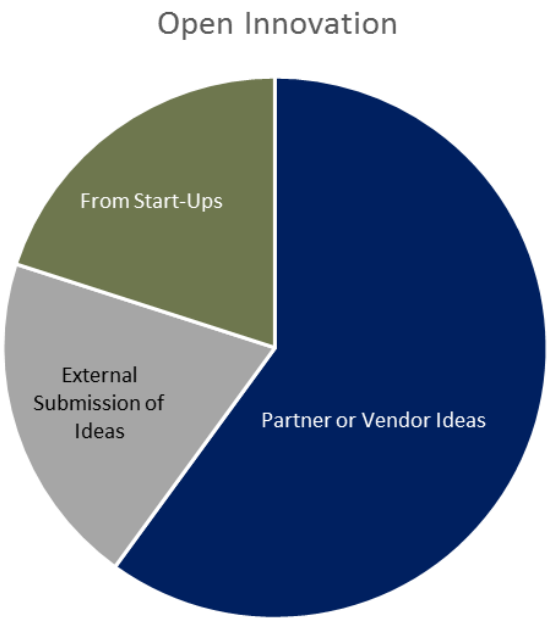
E. Appendix

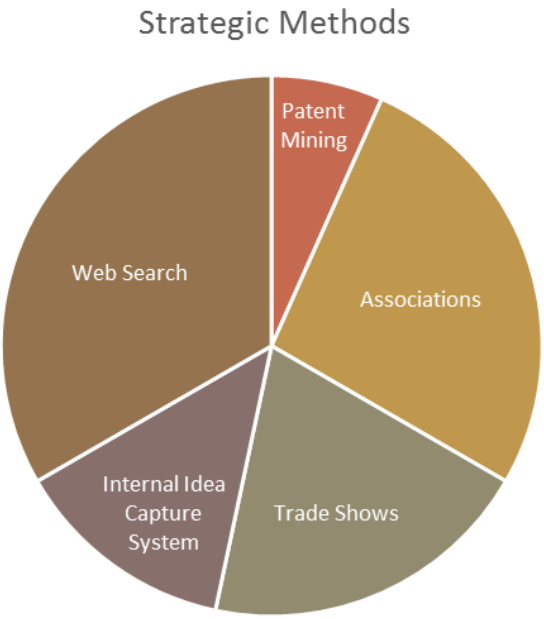
Appendix A: Market Research Distributions



Appendix B: Strategy Breakdowns

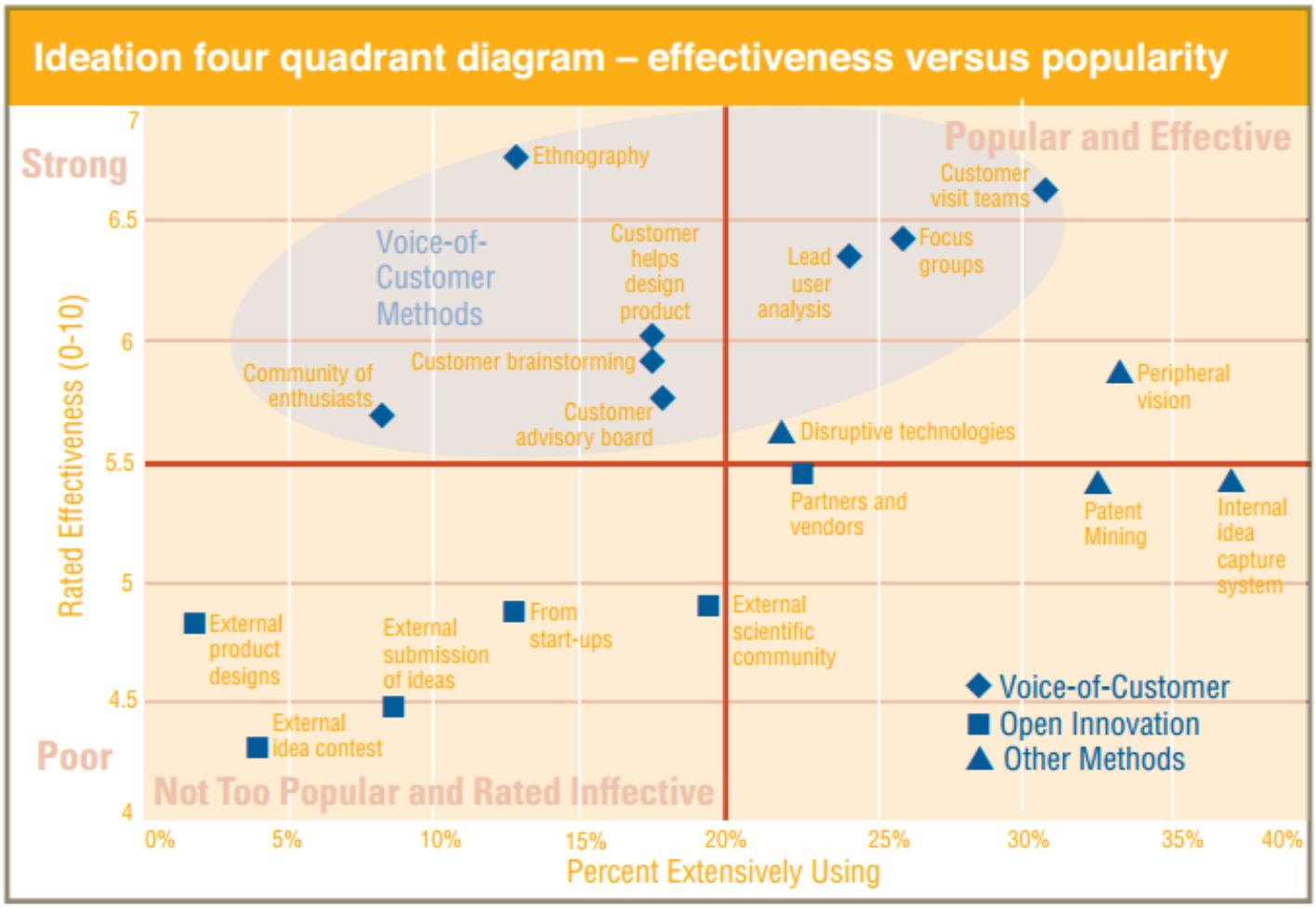
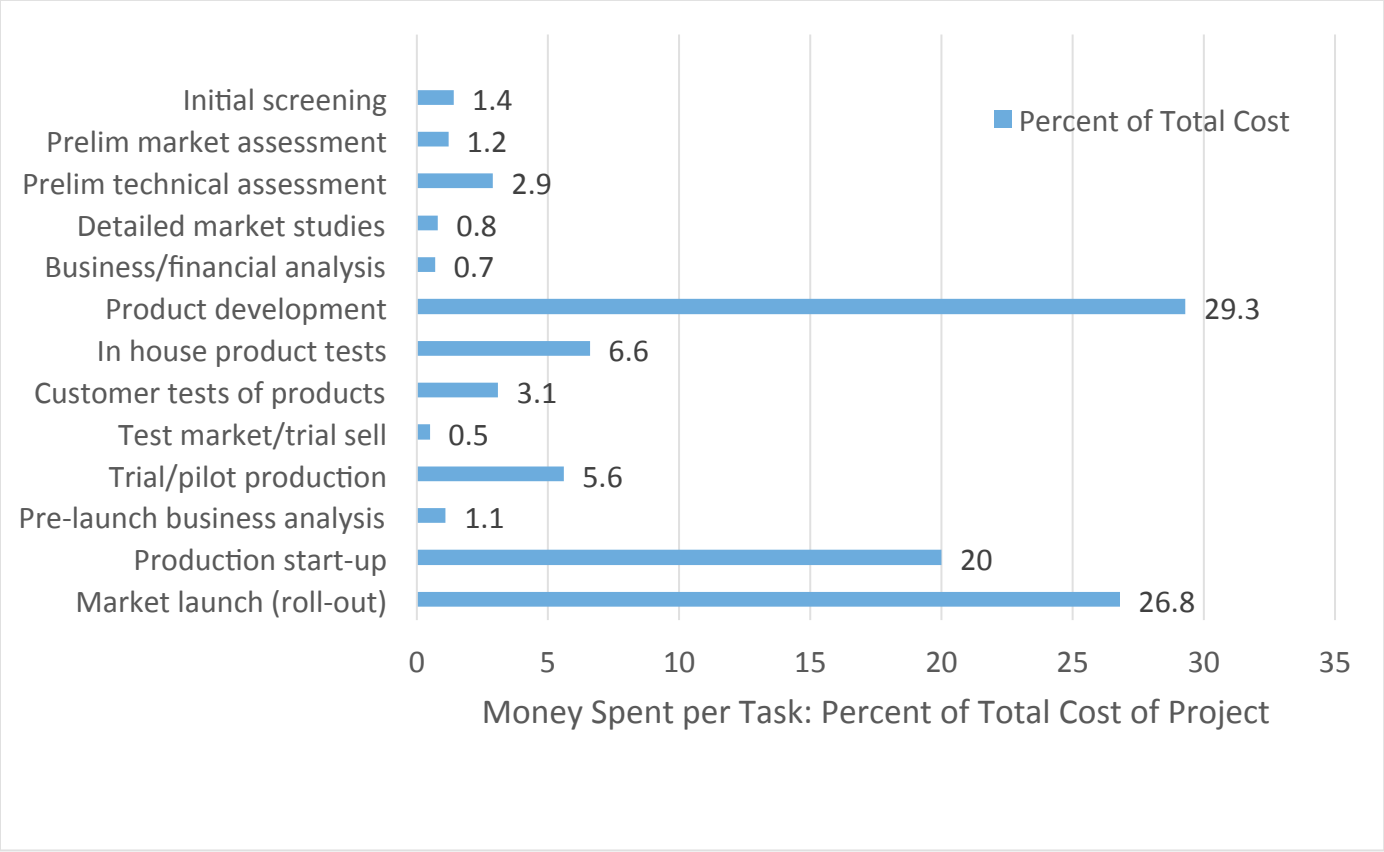






Appendix C: Use of Market Research

Source: "Breakthrough Innovations: Best Methods to Generate Ideas and Select Winners" -- Seminar led by Robert G. Cooper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