

## Identifying New Ways to Generate Profitable Revenue

### *The Power of Understanding the Mind of the Market*

June 27, 2020

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Professor of Marketing, Kelley School of Business at  
Indiana university*

# Our Session Objectives

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- To develop a methodical “customer-based” approach to identifying new revenue opportunities.
- To understand how knowledge of behavioral/social science can lead to powerful insights into how customers experience your products.
- To come away with useful examples of how companies have grown by leveraging deep knowledge of the customer experience.



Brilliant new breakthrough product ideas are vital to long-term success.





But ongoing success depends largely on how well we manage the performance of our existing product portfolio.



# What “Levers” Have the Greatest Impact on Financial Performance?

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Below are 4 ways to affect financial performance. All else equal, which one do you think will give you the largest impact on profit contribution?

- 1% increase in price?
- 1% reduction in variable cost (direct production cost per unit)?
- 1% increase in volume sold?
- 1% reduction in fixed cost?

# What “Levers” Have the Greatest Impact on Financial Performance?

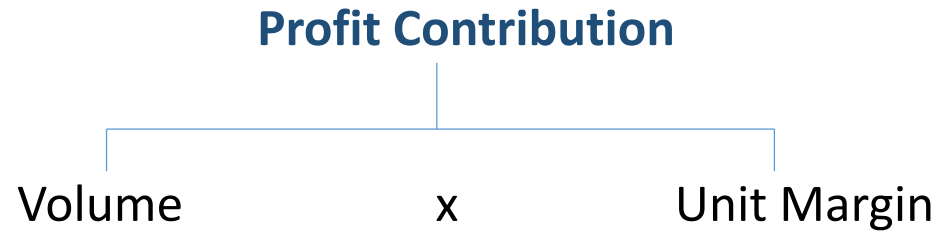
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Below are 4 ways to affect financial performance. All else equal, which one will give you the largest impact on profit contribution?

- 1% increase in price? **(+11.1%)**
  - 1% reduction in variable cost (direct production cost)? **(+7.8%)**
  - 1% increase in volume sold? **(+3.3%)**
  - 1% reduction in fixed cost? **(+2.3%)**
- 
- Combined, price and volume = **14.4%** improvement in profit contribution
  - Combined, cost reductions = **10.1%** improvement in profit contribution
  - **Cost reductions risk reducing volume (e.g., reduction in marketing spending, reduction in customer service, reduction in product quality)**

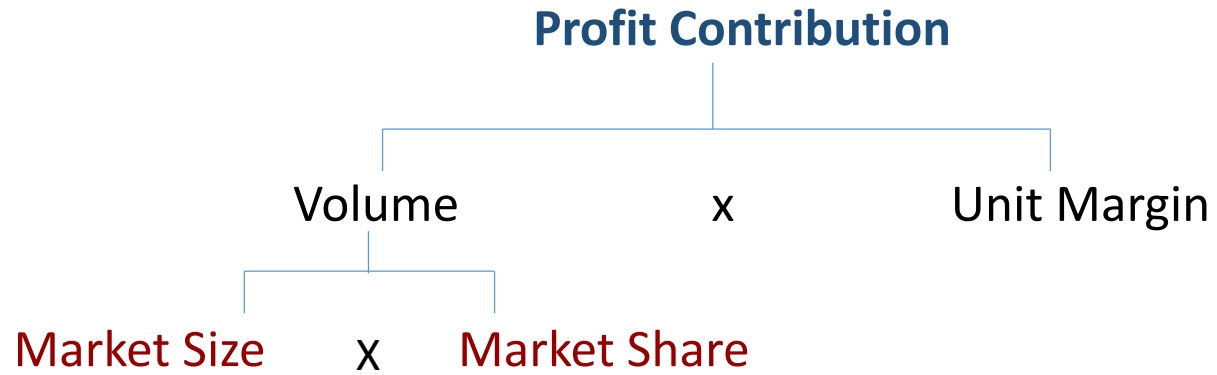
# Let's Take a Closer Look At “Profitable” Revenue

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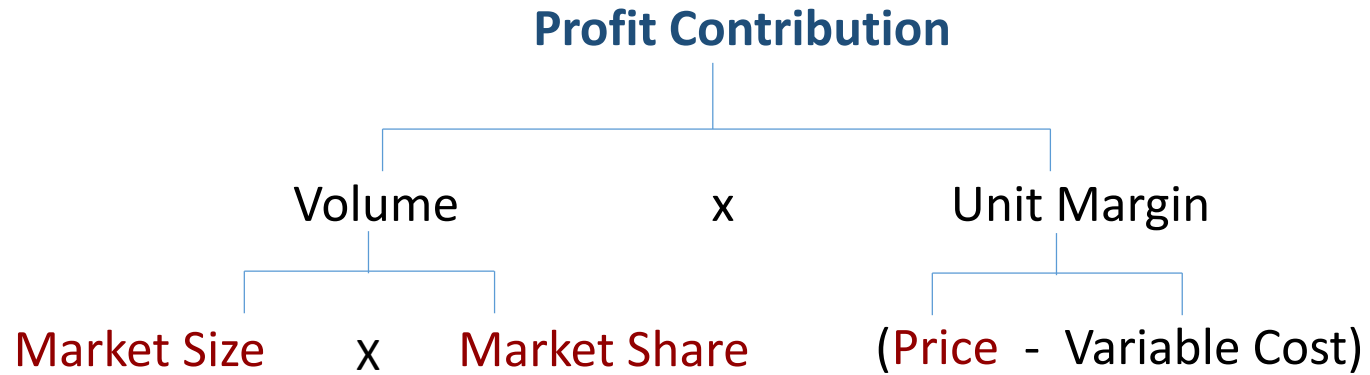
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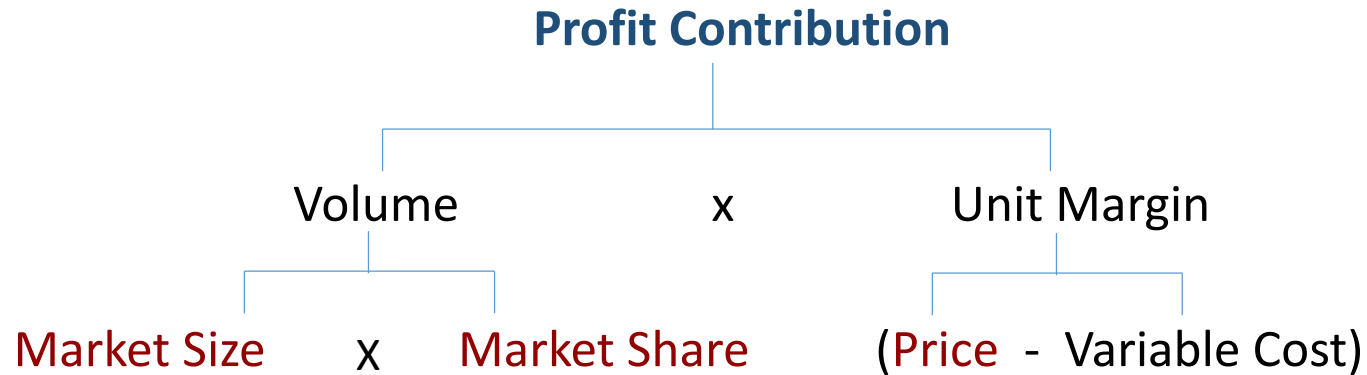


# Let's Take a Closer Look At “Profitable” Revenue

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# Let's Take a Closer Look At “Profitable” Revenue



## The BIG Question ...

How to come up with innovative ideas that hit EVERY lever that drives profitable revenue ...

- Grow market size
- Increase your market share
- Achieve a higher average price



They have the answers but ...  
they will not tell you.

*cannot*





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Enter the tools of social sciences



### Anthropology:

Deliberate non-intrusive observation of customer purchase decisions and product usage.

### Cognitive psychology:

Understanding the sometimes unusual ways customers process information about your products.



# An Actual Case Study

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How **methodically** understanding the “**mind of the market**” can lead to ideas that can immediately deliver profitable revenue.

# A Case Example

- **Company:** Werner Ladder Company
- **Products:** Over 100 types of ladders ranging in price from \$30 to \$650
- **Performance:** Sales revenue declining
- **Brand positioning:** Most durable and longest lasting ladder
- **Primary customer:** Professional builders/painters. Limited effort to market to home users.



# A Case Example

- **End goal ... develop action plans that will:**
  - Increase market size for ladders
  - Increase Werner's share of market sales
  - Increase sales of higher price (higher margin) ladders



# A Case Example

- **Process for understanding the customer:**
  - Depth interviews with customers
  - In-store observation of ladder buying behavior
  - Followed by depth interviews using a cognitive psychology technique that identifies “deeper” reasons for purchase decisions.



# A Case Example

## 1:1 Depth Interviews With Customers: What did we learn?

- Frequency of purchase = 1 or 2 ladders in a lifetime
- NO current knowledge of ladder options (Werner has over 75 different types of ladders)
- Expectations: Simple wood ladder
- Price expectations: \$20 - \$30
- Frequency of use: 1x per month
- Information gathering before purchase: None
- **Source of information:** In-store at time of purchase



Fiberglass example:  
Price = \$100 +

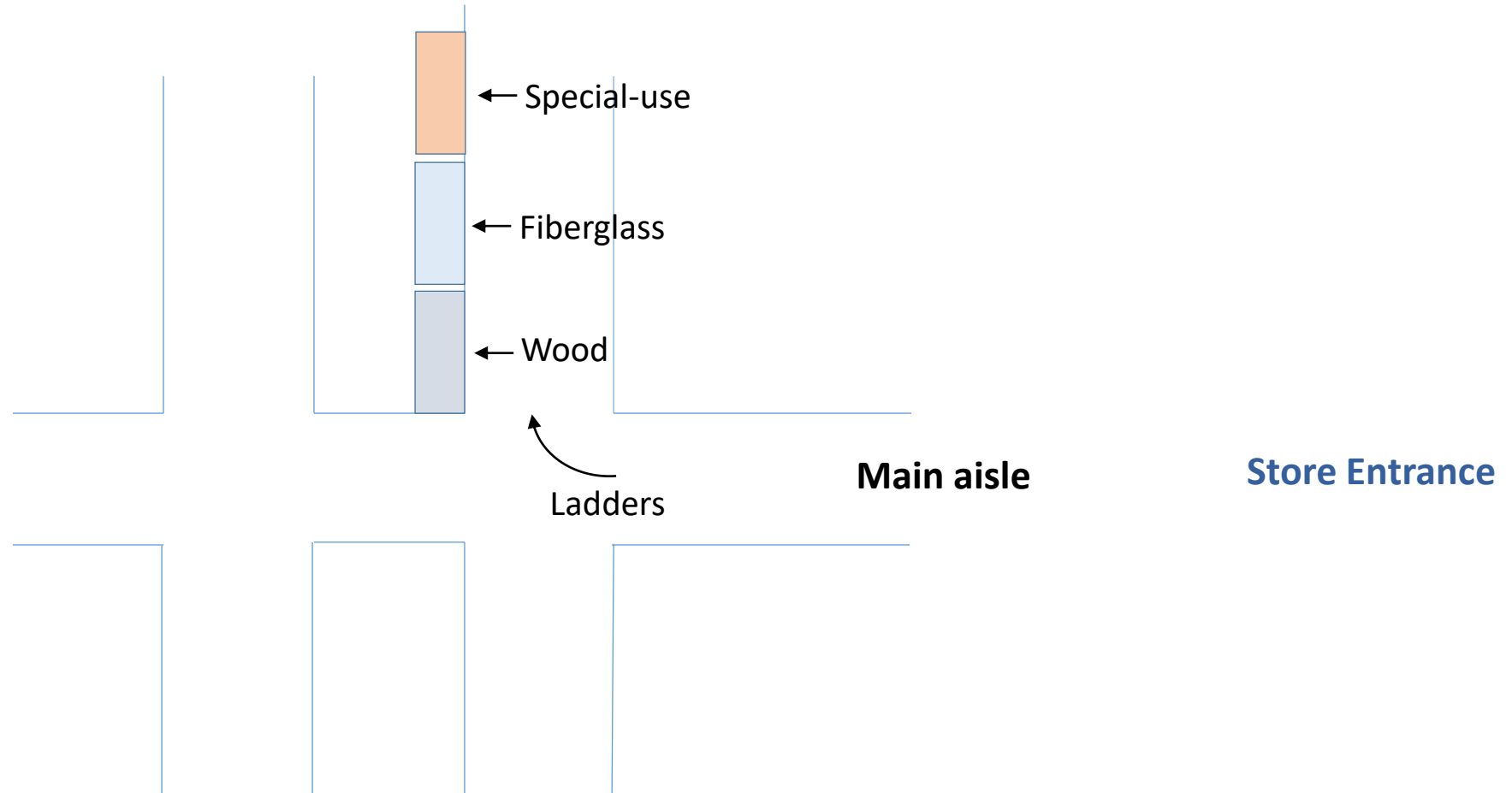


Price = \$50

**Note the challenge! How to get a customer to spend 3x more than expectation.**

# A Case Example

## In-store floor plan for the ladder aisle



# A Case Example

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## The in-store research: Process

- Conducted by business students who had a background in anthropology.
- The students worked with a business professor trained in cognitive psychology.
- Observed over 200 customers (non-construction customers) buy ladders over a 2-week period.

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- Of the customers who examined the wood ladder but also physically touched the fiberglass ladders ... over 50% purchased lowest price (\$100) or middle-priced (\$145) fiberglass ladder.

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- Of the customers who looked at wood ladder but also physically touched the fiberglass ladders ... over 50% purchased lowest price (\$100) or middle-priced (\$145) fiberglass ladder.
- About 20 customers opened the fiberglass ladder and stepped up on it.
- Of those who “tried” the fiberglass ladder in the store 80% purchased.

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- Of the customers who looked at wood ladder but also physically touched the fiberglass ladders ... over 50% purchased lowest price (\$100) or middle-priced (\$145) fiberglass ladder.
- About 20 customers opened the fiberglass ladder and stepped up on it.
- Of those who “tried” the fiberglass ladder in the store 80% purchased.
- The student observer casually approached the buyers and simply inquired “Why the fiberglass ladder?”  
The answer: It was heavier and felt more sturdy.

# A Case Example

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## Next Step ... Understanding Deeper Meaning of Why “Heavier/Sturdy” is Important

- We applied a cognitive psychology tool to help understand what needs are driving someone’s behavior in a given context.
- An interview tool known as “means-ends chain” analysis.
- The idea:
  - Customer behavior is driven by fulfilling many needs that they cannot immediately describe when asked directly.

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- The idea:
  - Customer behavior is driven by fulfilling many needs that they cannot immediately describe when asked directly.
  - Means-ends chain analysis is an interview technique that surfaces these “hidden motivations.”



# A Case Example

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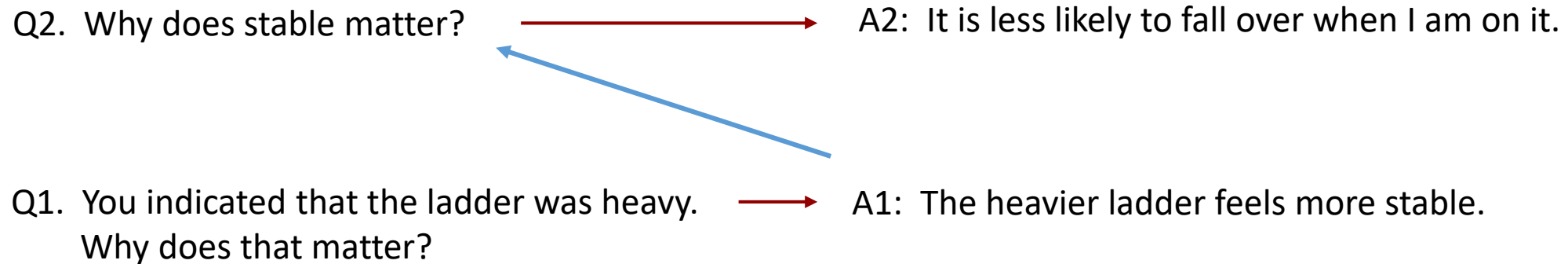
## How We Used “Means-Ends Chain” in this Case

Q1. You indicated that the ladder was heavy. → A1: The heavier ladder feels more stable.  
Why does that matter?

# A Case Example

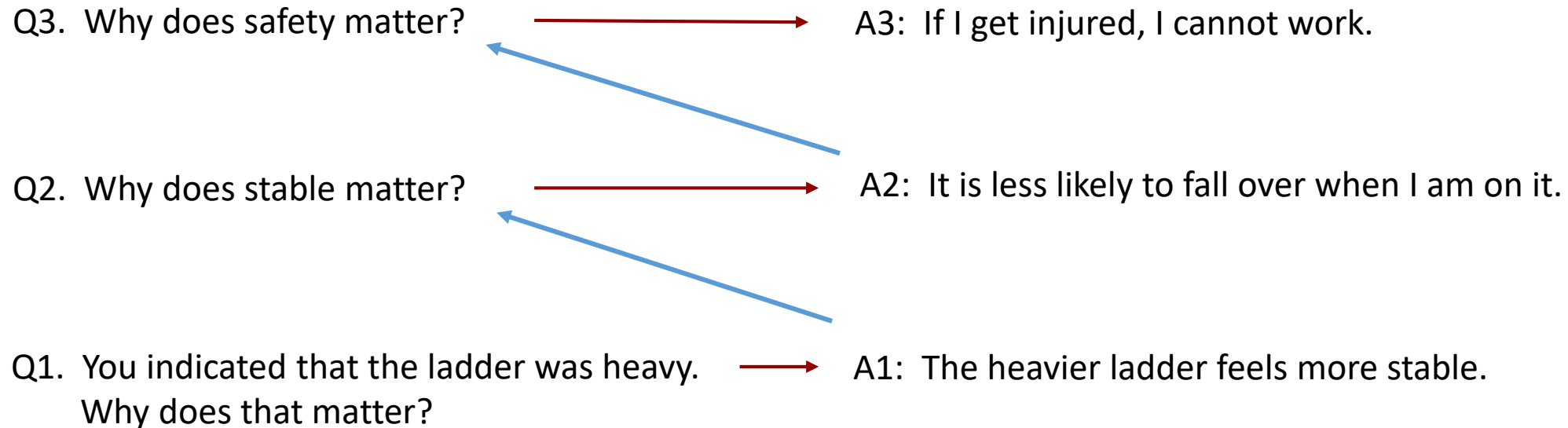
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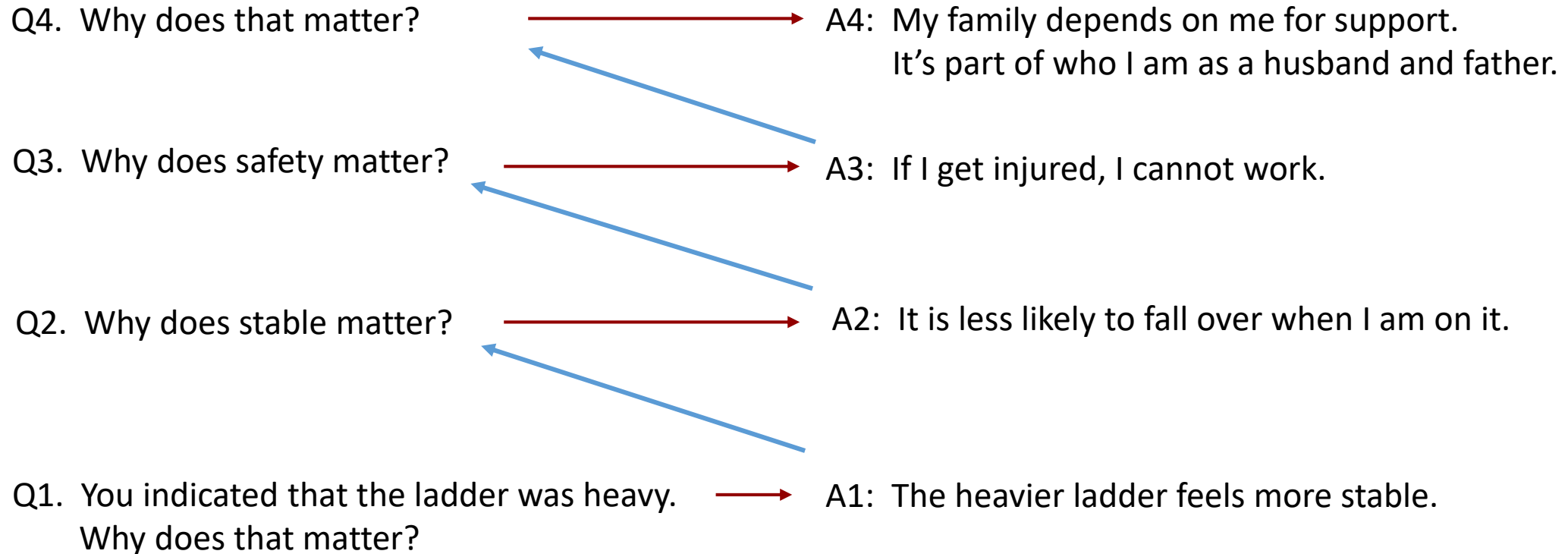
# A Case Example

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## Let's Look at What Happened

### Diagnosis

**What is holding back market size growth?**

- Low awareness of options beyond wood ladders.
- Only need 1 ladder, replace when broken.

**What is holding back market share?**

- No perceived differentiation between Werner ladders and others.

**What is holding back price-point “trade-up”?**

- Reference price point of wood ladder.

# A Case Example

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### Diagnosis → Actions

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- **Brand positioning theme:** “Your family is worth it”  
Note: **Family safety/security is now the reference point.**  
NOT the lower priced ladder.

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- **Coordinated communications plan:**
  - Magazine ads illustrate different types of ladders for different uses. **NO MENTION OF PRICES.**
  - Describes importance of having the “**right ladder**” for the “**right job.**” NOTE: Creates rationale for having multiple ladders. Drive customer to store to look.

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  - **Within the store .... Higher-priced fiberglass ladders seen first.** Wood at the end of the “line-up.” Shifts reference point ... high quality/durable/heavy ladders.
  - Signage in the aisle encourages customers to “**test the ladder.**”

# A Case Example

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## Results After 2 Years

- Total Werner consumer ladder sales **volume** increased by 21%.
- Sales volume of **fiberglass ladders** increase by 41%.
- Sales of wood ladders declined only slightly. Suggests **market size AND market share growth**.
- Before these actions, the “average revenue (price) per unit” for Werner’s consumer ladder portfolio was about \$63.
  - This strategy **raised the average price** for Werner’s “consumer ladders” by about **38%** to \$87
- **Two-year revenue growth: About +47%**

**Thank you for spending time with me today!**

**Questions/Discussion ?**

## For Additional Reading

- **Developing new ideas for growing revenue of established products.**  
Jonlee Andrews and Daniel C. Smith. <https://journals.sagepub.com/doi/10.1177/002224379603300205>
- **How to increase prices without losing sales volume.**  
Devon DelVecchio, Shanker Krishnan, Daniel C. Smith.  
<https://journals.sagepub.com/doi/10.1509/jmkg.71.3.158>
- **How to grow market size. Understanding consumer product category decision making.**  
C. Whan Park and Daniel C. Smith  
<https://academic.oup.com/jcr/article-abstract/16/3/289/1818793?redirectedFrom=PDF>
- **Means-ends chains in marketing strategy.**  
Jonathan Gutman  
[https://onlinelibrary.wiley.com/doi/abs/10.1002/\(SICI\)1520-6793\(199709\)14:6%3C545::AID-MAR2%3E3.0.CO;2-7](https://onlinelibrary.wiley.com/doi/abs/10.1002/(SICI)1520-6793(199709)14:6%3C545::AID-MAR2%3E3.0.CO;2-7)