Finding the Customer Preference “Sweet Spot”

Challenged by economic upheaval and an increasingly competitive market, Indian automakers face an uncertain future. Understanding what car buyers really want—and what they don’t—will be crucial.
Consider this story from India’s burgeoning automotive industry:

Bolstered by its sizable marketing muscle, an Indian automaker launches Model X. Sales are promising for a month or so, but then begin to plateau. Soon, rivals launch competing models, and eventually Model X sales fall into the low hundreds per month. At this point, the automaker reviews options to drive up sales: re-launch Model X with a peppier engine and minor design tweaks, increase dealer discounts, or scuttle the model and go back to the drawing board.

Now imagine that the company takes a different route: Before making drastic changes to the model, it uneartns customer preferences, thus discovering the reasons for Model X’s poor performance. Applying a quantitative market research technique known as choice-based conjoint analysis, the company analyzes customer perceptions of its product relative to competing models in the market to identify specific areas of underperformance and therefore its customer preference “sweet spot.” It then reintroduces Model X—with minor design changes and a marginally lower price—with dramatic results. In an increasingly competitive passenger car market, automakers are beginning to realize that success requires a better understanding of the customer.

This hypothetical example underscores how choice-based analysis is used to unearth true customer preferences. Manufacturers can assess how their product portfolio aligns with the expectations of target customers and use this information to make design modifications that not only improve the vehicle’s overall utility but also lead to more sales. A recent A.T. Kearney study finds that even a minimal redesign can have a significant impact on utility as perceived by customers (see figure 1). Indeed, our analysis of Model X’s target customers finds that reducing the price by 6 percent and downgrading certain specifications such as engine capacity,

Figure 1
The impact of utility on customers

Customer utility

<table>
<thead>
<tr>
<th>Price</th>
<th>Mileage</th>
<th>Fuel</th>
<th>Engine capacity</th>
<th>Interior comfort</th>
<th>Exterior styling</th>
<th>Safety features</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing model</td>
<td>Revised model</td>
<td>Existing model</td>
<td>Revised model</td>
<td>Existing model</td>
<td>Revised model</td>
<td>Existing model</td>
<td>Revised model</td>
</tr>
<tr>
<td>-16.4</td>
<td>6.4</td>
<td>6.2</td>
<td>8.8</td>
<td>0</td>
<td>3.5</td>
<td>4.0</td>
<td>+22.8</td>
</tr>
<tr>
<td>-2.5</td>
<td>-2.5</td>
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<td>3.6</td>
<td>1.8</td>
<td>6.2</td>
<td>+2.6</td>
</tr>
<tr>
<td>-10</td>
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<td>+7.7</td>
<td>+4.4</td>
<td>+0.1</td>
<td>+0.5</td>
<td>+0.1</td>
<td>+2.6</td>
</tr>
<tr>
<td>-20</td>
<td>-6.5</td>
<td>-10</td>
<td>-10</td>
<td>-10</td>
<td>-10</td>
<td>-10</td>
<td>-10</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis
interior comfort, and exterior style and design could result in a steep increase in sales. With an additional upgrade to safety features, the revamped Model X has more desirable utility and better market performance.

This approach can be applied to consumer product sectors in which manufacturers compete on multiple features and specifications. Indian consumers are growing more affluent and developing higher expectations. Adding analytical techniques such as choice-based modeling to the marketing toolbox can offer a competitive advantage in an evolving and tightening marketplace.

Shifting Fortunes: A Growing Industry Faces Tougher Times

The automotive industry is a leading indicator of a country’s economic health, so it is no surprise that India’s growth paralleled a similar surge in domestic passenger car sales, with all the major automakers (including those from the United States, Japan, Korea, and India) hungrily competing for a slice of the pie. This was not always so. In 1996, every other car sold in India was the ultra-compact Maruti 800. Dubbed the common man’s car, it is made by Maruti Suzuki, a subsidiary of the Japanese manufacturer Suzuki, whose logo was on eight out of 10 cars sold in India at the time. Most cars sold were small, underpowered hatchbacks with excellent gas mileage, the remainder being larger sedans.

In an increasingly competitive passenger car market, automakers are beginning to realize that success requires gaining a better understanding of the customer.

But as Indian consumers have become more affluent, their needs and expectations have become more sophisticated. Consider this: In 1995, the Indian market had seven automakers manufacturing 13 models. Today, there are 21 automakers producing over 90 models, with new launches planned nearly every two months. The Herfindahl-Hirschman Index (HHI), which measures an industry’s competitiveness (the lower the HHI score, the higher the level of competitiveness), illustrates how India’s automobile industry has grown more heated over the last 17 years (see figure 2 on page 4).

In general, an automaker’s market performance is directly affected by the entirety of its product line, as determined by consistency in product strategy. The automotive industry in most markets worldwide has two basic product strategies: the continuous spectrum, which views the market as a set of endless, related segments, and the discrete mosaic, which views the market as multiple, unrelated segments.
The continuous spectrum strategy, used by most Indian automakers today, targets existing customers with offers of replacement models or the opportunity to move up to higher-priced cars. Every new model shares design characteristics with existing models for a neat fit into the manufacturer’s product line. This strategy led to a threefold increase in the number of new models over the past 30 years—with median price increments of only 5 percent—as original equipment manufacturers sought to plug every available price point. While this was an effective strategy in a rapidly expanding market short on choices, it is likely to be less viable on the road ahead. After enjoying a CAGR of 15 percent from 2006 to 2012, India’s passenger car industry is experiencing the effects of a global slowdown combined with persistently high inflation and domestic borrowing costs. In January 2013, the Society of Indian Automobile Manufacturers revised the growth rate for the year downward, from 10 percent to about 1 percent.

Given this dire forecast and saturated product portfolios, it is time for Indian automakers to become more customer-centric—to produce cars with features and prices designed to win the battle for market share.
Understanding a Key Customer

As part of our study, we focused on understanding the automobile preferences of mid-level urban professionals. Given the wide range of models and prices, our focus was on vehicles appropriate (as determined by past sales) for the urban professional profile—midsize sedans, or the C1, C2, and D product segments (see figure 3).

Figure 3
Passenger vehicle classification

Choice modeling was used to identify the features that drivers consider most important when purchasing a vehicle. Unlike traditional customer insight surveys, which do not capture the purchase consideration process, choice modeling provides a view into real-life purchasing decisions that consist of trade-offs, such as choosing between the model with the Bluetooth-enabled stereo system and side airbags or the model with leather seats and a sunroof. Manufacturers can replicate difficult trade-offs that car buyers make in actual purchase decisions.

We presented our study participants with a series of hypothetical automobile choices spanning different brands, features, and prices. We asked our participants to assume that the models were the only ones available in the market, and to select either their preferred model or “none.”

The results were analyzed using multinomial regression to determine the factors most critical to decisions around choice of automobile and the perceived utility of various features and price levels. What follows are the key findings and their implications for Indian automakers:
Mileage comes in a distant third behind price and brand.

Participants were asked which features or attributes play an important role in their purchase decision. The answers were surprising. The long-held assumption has been that Indian drivers are obsessed with mileage and fuel economy, as evidenced in an Indian automaker’s popular ad campaign featuring the tagline, “What’s the mileage?” Yet, in our study of the segment, mileage—while remaining an important factor—comes in a distant third behind price and brand (see figure 4).

Many urban professionals prefer compact cars for their ease of parking, good gas mileage, low environmental impact, and maneuverability. Thus, they choose better-equipped hatchbacks over basic sedan models. At the other end of the spectrum, better drivability and smoother ride are persuading some customers to trade up from sedans to compact SUVs.

As the lines blur between different product segments, customers base their choices on needs and derived utility. This will challenge traditional pricing conventions that are tied to engine capacity.

**Implication for automakers:** Challenge long-held assumptions about what matters most to customers and invest in creating differentiated products that target distinct customer segments.

**Additional features do not necessarily add to a car’s perceived overall utility.**

When it comes to features, more is sometimes less. Manufacturers go to great lengths to highlight their models’ features, such as extra cup holders, center armrests, and rear defoggers, which can be missing from competitors’ models. The competitor, in turn, emphasizes its features, such as adjustable steering wheel, document holder, and anti-glare rearview mirrors. So goes the never-ending “features race” that not only leaves customers confused but adds significantly to manufacturing costs.

What’s missing is an understanding of how much value each feature adds to the customer’s perception of the automobile. In a price-sensitive but demanding market, building every conceivable feature into cars results in higher production costs and sticker prices and, ultimately, the alienation of a substantial number of price-conscious car buyers.
When it comes to features, **more is sometimes less**—the never-ending “features race” leaves customers confused and adds to manufacturing costs.

Our study confirms this. All aesthetic and design features were grouped into three categories: external styling and design, internal comfort, and safety features. Each category comprised three levels of features, with Level 1 being the most basic configuration and Level 3 having almost every new feature available.

For two of the three categories—exterior styling and design and safety features—the perceived utility of the Level 3 option was significantly lower than that of the Level 2 option, while for interior comfort, customers perceived Level 3’s utility to be marginally lower than that of the less feature-rich Level 2 option (see figure 5).

While the decline in utility for the high-feature category is partly explained by interaction with price, A.T. Kearney believes that consumers perceive fully-loaded models as overkill, with too many features they neither want nor need.

**Implication for automakers:** Manufacturers should develop attribute-level utility maps that help indicate an ideal feature mix that maximizes customer-perceived utility.

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**Figure 5**

**Utility does not increase in line with added features**

<table>
<thead>
<tr>
<th>External styling</th>
<th>Safety features</th>
<th>Interior comfort</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>L1</strong></td>
<td><strong>L2</strong></td>
<td><strong>L3</strong></td>
</tr>
<tr>
<td>-8.0</td>
<td>6.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Notes: L is Level. Levels 1, 2, and 3 represent levels of features, with L1 being the most basic configuration and L3 including most new features.

Source: A.T. Kearney analysis
Utility is not linear or inversely related to price. There is such a thing as too cheap.

When asked how utility changes with incremental increases or decreases in price, respondents revealed that the lowest price does not guarantee a sale (see figure 6). When a manufacturer launched a much-awaited model in 2009, the buzz was unprecedented. At $2,000, this model boasted by far the lowest new car price tag in the world. Aimed at making automobiles affordable to every family in India, this car generated furious debate about its potentially devastating impact on the sales of cars priced two to five times higher. There was no need to worry: Today the vehicle lags in unit sales, well behind the same manufacturer’s mainstay hatchback, which costs nearly three times more.

Figure 6
Utility is not inversely related to price

From the survey, while the lowest price range of 600,000 Indian rupees (about $11,000) had the highest utility, the utility was not significantly lower at 850,000 (about $15,500), which was the mid-point of the study’s price range. Even more interesting is the finding that utility at the 850,000 rupee price point was higher than that at 800,000 rupees ($14,600). Utility dropped off steeply beyond 850,000 rupees, indicating that for mid-career urban professionals, the ideal price point is about 850,000 rupees.

Implication for automakers: While it is a given that price will continue to play a major role in all automobile purchases regardless of customer segment, identifying price sensitivity in a given segment can go a long way toward offering a compelling proposition to target customers.
Brand perceptions can vary by segment and play a significant role in purchase decisions.

Smart automakers pick their battles when deciding the segments in which they will compete. When asked specifically about brands, our study participants offer no strong opinions on any of the brands in the choice sets. However, they paint a completely different picture in the CBC analysis, showing significant negative reaction to two of the eight brands presented and a strong preference for one. The other five brands fell between the two extremes (see figure 7).

**Figure 7**
Knowledge of a brand’s standing in each target customer segment is essential

**Customer-perceived utility by brand**

![Bar Chart](chart.png)

Source: A.T. Kearney analysis

The manufacturer that owns Brand 8 would be hard-pressed to improve the sales of its models to this segment even with large-scale feature improvements. Instead, the automaker might focus its energy on other customer segments in the medium term and address the perception of its unpopular model with a sustained, long-term marketing campaign.

**Implication for automakers:** Tracking a brand’s standing in each target customer segment is essential for gauging any inherent advantages—or disadvantages—that could influence brand performance.
Looking Ahead to India’s Automotive Future

Rather than offering an overflowing product portfolio, successful automakers develop a thorough understanding of how individual features affect customer preference and come up with models that fulfill the specific preferences of each target customer segment. Three steps are vital to this effort:

- Acquire an understanding of a target consumer segment’s perceived value of product offerings, and of performance strengths and weaknesses in the product portfolio.

- Determine root causes for underperforming products, such as poor brand resonance, inappropriate pricing, or suboptimal feature packages, and then test the potential impact on market share of launching a model in a newly targeted customer segment.

- Track evolving customer preferences to design an optimal combination of price and features that will maximize utility and help determine what new features should be designed into the product.

With consistent application, a systematic choice modeling approach can help India’s automakers achieve the optimal combination of price and features to garner market share in the country’s increasingly competitive domestic market.

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