Using Exploratory Research to Formulate Quantitative Research and a Discrete Choice Modeling Design

Case History

Category: *Auto/Captive Financial Services*

Methods: *Exploratory Research, Quantitative Research, Discrete Choice Modeling, In-Person Focus Groups, Simulated Purchasing Decisions*

Summary

The Captive Finance arm of a Global Auto Manufacturer had historically relied on a traditional approach to developing new business, utilizing the value of its automotive products as the primary conduit for attracting customers. The client was looking for new ways in which to grow and add value to its business.

Strategic Issues

Ultimately, the client felt it needed to develop a clear value proposition as a foundational first step. Like any business that is undergoing a transition to a more customer-centric approach, the client felt it lacked sufficient insights into the wants, needs, and desires of its customer base. In addition, it had a few existing ancillary products and services that it wanted to test for relative appeal and customer acceptance, as well as a number of new ideas for which it wanted to determine sales potential. Finally, the client wanted to know which financial service offerings, when bundled together, provided the greatest opportunity for revenue and profit maximization, and the optimal price points.

Research Objectives

The primary objective was to gain an understanding of the consumers' view of automotive lenders, and the lending experience in general, to be able to determine what characteristics they valued most in a lender. Therefore, the goals of the research were to identify and prioritize the key factors involved in choosing a new-car lender and to gauge the appeal of several new financial service concepts that were under consideration.

Research Design and Methods

Decision Analyst conducted the research in two stages: a qualitative stage was followed by a quantitative stage that included discrete choice modeling. In the first stage in-person, exploratory focus groups were conducted. A total of 12 in-person groups were conducted in two key U.S. markets. The two-hour group sessions included several different categories of consumers, such as groups of captive finance customers, bank/credit union customers, and lease customers. Videotape highlights of the sessions were provided to support key findings. The findings were then used

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to help guide the second stage of the research—the questionnaire development, discrete choice modeling design, and volumetric forecasting exercise.

For the quantitative stage, respondents were drawn from a national sample of recent new car buyers from the American Consumer Opinion® Online panel and from manufacturer records of recent buyers. The discrete choice exercise simulated real-world consumer purchase behavior. A realistic scenario of service offerings and pricing was provided, similar to what they would be given by a dealer finance manager. Each respondent saw 15 scenarios and made purchase decisions based on the service offerings and pricing presented in each scenario. Results provided individual service utilities, as well as optimal service bundles; both two-service and three-service optimal bundle were created.

Results

The client succeeded in developing a fundamental understanding of current and prospective customer needs, and learned how to effectively position itself against competitive lenders (such as banks and credit unions). Armed with a customer-derived definition of their value proposition, the client was able to redefine its strategy and select service offering bundles that offered a strong potential for success.

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