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## Discrete Choice Modeling

### Measuring & Understanding Customer Preferences that Lead to Choice Decisions

Discrete Choice Modeling is a powerful analytic technique for understanding what customers want and why they buy. The modeling technique reveals the relationship between the probability of choosing an alternative and the attributes or benefits that characterize that alternative. More specifically, the discrete choice model is a mathematical representation of customer preferences that provides estimates of the utility or value that customers place on different features or benefits when making constrained choices.

#### DCM is especially effective for...

- **Product or service optimization** — designing or configuring the optimal product or service offering for a specific competitive market
- **Pricing strategy** — determining price elasticity of demand; understanding price sensitivity for features; comparing non-linear pricing strategies
- **Demand forecasting for new products** — expected share of preference among a defined set of competitive offerings
- **Market segmentation** — identification of high-value segments based on individual preferences for features and/or benefits
- **Understanding competitive markets** — forecast the impact of potential changes implemented by competitors

#### Advantages of DCM

Discrete choice models have a number of advantages over traditional conjoint analysis and self-reported measures of feature importance.

- **Greater task realism** — the discrete choice experiment more closely resembles the actual purchase situation
- **Greater market realism** — discrete choice experiments can be designed to allow different features and different price ranges for different brands or products
- **Competitive context** — products or services are evaluated in a competitive context where respondents choose from a set of alternatives rather than evaluating the alternatives one at a time
- **Choice is modeled directly** — not inferred or derived from ratings or rankings
- **More features** can be accommodated while keeping the task manageable for respondents
- **Demand estimates** — a “none” option provides an independent estimate of the impact of pricing and features on the likelihood of not buying

“think what no one else has thought”

## Deliverables

The mathematical model enables us to predict the change in share of preferences for a particular product or service as a function of changes in feature levels and price in a specific market. In addition, we also include the incremental impact on preference for the different feature levels, demand as a function of price, and the value of each brand (if brand is included in the model).

The utility values for the attributes and benefits derived from the modeling process are incorporated into a market simulator that allows you to perform “what if” scenario analysis on enumerable hypothetical market scenarios. You can change pricing, features, and add or delete products from the competitive frame to determine the impact of a wide range of marketing actions on customer choice behavior.

If you would like more information, please visit [www.customerlifecycle.us](http://www.customerlifecycle.us) or contact one of our principals.



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