Town Hall: Anticipating Those Customer Value Questions That Make You Squirm

Frost & Sullivan Medical Devices Executive MindXchange:
Business Excellence in a New Industry Era

Sheila Mello and Wayne Mackey of Product Development Consulting, Inc., led a town hall discussion on March 15, 2010 focusing on customer value. They started the discussion with a presentation of the 10 questions below and then asked the audience to contribute ideas and war stories.

10. Where is the money to do a robust front end customer value definition project?

9. Why waste time? We know our customers' problems without further research.

8. How can customers tell us anything about new-to-the-world products?

7. Can I afford the time to do this? TTM is King!

6. How do I get cross-functional participation? The development team isn't formed until after customer requirements have been defined.

5. How will I know my frontend approach is working?

4. What do we do with all this data we have?

3. How can I get senior management on board?

2. How can I develop the skills to do this?

1. Who is the customer?

Below are some of the insights from the audience. (Please note: these are not verbatim quotes but summaries of the ideas expressed.) Following some of the insights are comments from Sheila and Wayne.

Product Development Consulting, Inc.
84 State Street Boston, MA 02109 617-723-1150

www.pdcinc.com
Sheila Mello - smello@pdcinc.com
Wayne Mackey - wmackey@pdcinc.com

Funding

- We used our one market researcher to put the project together. We had a limited customer base that was hard to reach and we had to solicit lots of consultants help. I don't know where the money came from and I don't know if we'll ever get it again.

  ➢ *It would be better to incorporate a cross-functional team instead of depending on just market researchers and outside consultants. That seat in front of your customer should be treasured.*

- We partnered with a larger part of our division that has deeper pockets. We found a common strategy. As part of this broader strategy we found the rationalization and were able to do it.

- The way you explained VOC is the ideal way [with a cross-functional team from the beginning]. We have had a few projects where we have worked that way. At some point you bring the ideas back to your design team. But senior management wants it drilled down to a specific project. They don't want research funded until it's related to a specific project.

  ➢ *VOC can be effectively done at both the strategic level and the project level. When it is strategic, the cross-functional team is best if at a management level while the team for a project level VOC is ideally the core team that will carry the project through development.*

Know Thy Customer

- I had general manager tell me once: 'don't be confused about who the customer is. It's the person who writes the check. We have lots of stakeholders. It can get confusing among those different constituencies -- who are they and what do they want? Most of our market research ends up being on stakeholders -- clinicians who actually use the product. They buy in to what we're doing and then influence the people who are going to write check.

  ➢ *You want to be talking to the stakeholders even if they aren't the traditional users. You should explore with each stakeholder the problems they face in getting their jobs done. Ultimately, your products need to satisfy all the stakeholders at some level to be successful.*

Working with Senior Managers

- My biggest issue is getting senior management -- and customers -- on board. For our bigger projects, we ask team members who are all they key influencers and decision makers. Sometimes this is easier than others. Then we go visit them, talk through all their pain points, and try to figure out

Product Development Consulting, Inc.
www.pdcinc.com
Sheila Mello - smello@pdcinc.com
Wayne Mackey - wmackey@pdcinc.com

where the project fits in their portfolio of projects. In too many situations you get very far along and then find out that the project was not prioritized the way you thought it was. We try to get to the high-level individuals at the beginning, and even assign someone at a similar level as a liaison from the very beginning.

- Ours is almost the reverse. You have the presumption that value can be sold, where value may not be demonstrable. You have the ceiling approach of reimbursements. Senior management thinks you can sell value but it turns out not to be of value. You end up with senior management's thought paradigm even though there is no reality to it.

- As our company was growing up, it was based on gut decisions. The people who made those decisions are now in senior management. They haven't overcome the barrier that they already know what customers want. They may have a list of 100 things that they think customers want. You introduce a process that kills 90 percent of the things on that list. It's hard to get them to recognize the value of your process because they probably won't like the answer. We pulled it off under the radar. We'll see when the results come [from our current project] what the impact is. I'm most worried now about what we'll do with the answer.

  ➤ *If you can support your recommendations with an audit trail of statistically significant customer data, you can gain the confidence of senior management.*

- We have a case where senior management does not buy in, but we have rallied people underneath. When everyone below says it's something you have to do, it's harder for senior management to ignore.

  ➤ *Combine rallying the people with solid customer data and you will have senior management on board*

- Our project wasn't stopped so much as hijacked. We started with a problem statement of what we wanted to gather data about. The higher up it went, the more it turned into something it wasn't intended to be.

  ➤ *If you proceed with the revised project as defined by senior management, your customer visits will enable you to determine whether there is customer value for the revised scope or whether the customers' problems suggest a different scope.*

Data-Driven Decision Making

- We're very metric driven. When you challenge people to go down that path, it takes the emotion out and forces people to answer the questions. A lot of time the data points you in the right direction and shows you what you

Product Development Consulting, Inc.
www.pdcinc.com
Sheila Mello - smello@pdcinc.com
Wayne Mackey - wmackey@pdcinc.com

should be doing. We have hundreds of initiatives. Data can help us choose which ones.

- We had an opportunity to cancel a program fairly deep into it when we were asked to go back and validate. It wasn't a question of whether the customer thought the technology was meaningful but would they pay more for it. We used VOC to determine there was interest, but they weren't willing to pay, so there was no value. Unfortunately it came after a significant R&D investment.

  ➢ *This is an excellent argument for doing a robust VOC before major R&D investments are made.*

- [In a show of hands from the audience, only one used VOC to help determine the portfolio.]

  ➢ *One of the most effective uses of VOC is to determine which projects should be in the product portfolio. Determining white space opportunities will help to ensure that your investments will have a high payback.*

Trusting Results

- It's hard for us to validate VOC. Opinions can change; we're always trying to keep up with the changes.

  ➢ *Using quantitative research methods like Kano that measure customer value for customer requirements enable you to validate your qualitative VOC.*

Reaching Customers

- I've been involved in several approaches... different kinds of VOC activities. I haven't set them up myself but the feedback I get from people who participate and marketing folks is that most customers *want* to be part of the product development effort. They also want feedback from sessions to hear how close or how far away they are from their peers. They want to learn from the opportunity as much as they want to provide information to us. We've never had a hard time getting people to participate. They're generally very positive.

- We supply raw material devices & components to OEMs. In trying to get to the customer, mostly it's the money. A lot of professionals and consumers want to give information. When you're talking about stuff like job shadowing, for example, that's getting harder in US with privacy laws. It's actually much easier in Europe. If you're willing to pay somebody some money, it's not that difficult to get to different people to talk to you.

Product Development Consulting, Inc.
www.pdcinc.com
Sheila Mello - smello@pdcinc.com
Wayne Mackey - wmackey@pdcinc.com

> ➢ *This is getting more difficult to do with laws like the one passed most recently in Massachusetts related to paying clinicians.*

Preparing for Regulatory and Other Changes

- We make medical devices tied to compliance. If the organization pays and patients don't use it, they wonder why. We need to tie cost-effectiveness to use. As they look at diagnostic cost, there has to be a direct benefit to use. We're trying to segment customer from stakeholder. The customer is the payer; they don't know enough about our world. We're still a small blip on the screen for the customer. Rather than worry about who is paying, we want to take informatics to the next level, so when the need becomes obvious, we're there with a solution.

- It has affected the speed of bringing out our products. We need to make sure we stage them properly so they can be reimbursed appropriately. And you want to make sure your sales organization understands the customer. So product staging for reimbursement is critical, and also making sure the people in front of the customer understands the customer.

- A lot of the pharmacy and medical directors are usually receptive to talking about new technology, especially if they think they can offer insights before the product is started. They are a lot more amenable to the process early on so we try out product concepts with them even before we have gotten licensing. It helps to know what the payer considers viable.

- Many payers have a formula they use to do technology assessment. Anything that causes variance from that formula creates a difficulty. They all want to do it the same way. All of our products are unique and don't fit into cookie cutter. And payers don't always have easiest time dreaming through evidence. It often helps if you can come up with a beta version to help guide them through. When you ask them what they want, they give all kinds of good ideas but can't really say until they see it whether it would be valuable.

  > ➢ *We have seen significant value in doing a VOC program that focuses on the payers.*

Incorporating Services and New Business Models

- We sell devices and we know we probably need a more holistic solution. Services tend to be lower margin -- then comes "do we want to go there?" because they can dilute P&L and there is potential for channel conflict; customers become competitors. Also we might get into patient care liability if you start offering education and advice. These things have stifled our ability to get into services.

Product Development Consulting, Inc.
www.pdcinc.com
Sheila Mello - smello@pdcinc.com
Wayne Mackey - wmackey@pdcinc.com

- We experimented with new business model innovation but given the economy, there was not much tolerance for "here's the money, go out and see if you can make it work" You also worry if you have customers that will be upset you're getting into their space. It's difficult.

- We're the opposite. One of the services we make is programmed in the OR. The business model is great because we have opportunity to sell. Even though we made progress, the fact is that we provide these services but now have to pull back -- we don't have resources to sustain a service component.

  ➢ *Look at your product from a cross-functional viewpoint including service, distribution, manufacturing, quality, regulatory, engineering and marketing. Involve these organizations in your VOC activities and reach consensus on the best way to meet the key customer requirements while meeting your internal constraints*

- Let me offer a sad story. "Once upon a time you want to bring a new product to market, but your market share is not the top. So you decide, let's bring it to point of care -- it's virgin territory. You bring it forward, but the technology fails. Good news: you saw a space for competitive advantage. But it doesn't work! It was a 40-50 million idea… but senior management then wonders why we did it.

  ➢ *This is a perfect example of when doing a robust VOC up front will enable you to see how effective a technology approach will be in meeting the stakeholders' requirements*

The Takeaway

Summarized by Sheila Mello: Our experience with these 10 questions is that you can do innovation work with a good fuzzy front end if you really communicate with people in an environment where you're asking about solving their problems. If you move away from product-specific discussions for VOC, you can then innovate based on your research. The challenge is to separate the solution from the interview so you can get the data you need to support decisions. If you do this, your offering won't be some manager's pet project, but something that really fills a need for the stakeholder.

Summarized by Wayne Mackey: It seems as if the state of the industry is not as mature as it might be. There may be lot of work to be done here.

Audience member in defense of the industry: We are doing it; we just don't know which trend to follow. We have ideas around it; it's just that we don't know which voice to listen to. Should we put all our dollars in a few directions or invest $10 on every bet and at least we have our bets covered?

<div align="center">###</div>