



Innovation by the bundle



By Charles J. Roussel and Paul F. Nunes

Instead of selling products or services separately, innovative companies can bundle them into combinations that are more valuable than the simple sum of their parts. Consumers will pay a premium for such "lifestyle solutions," and they will remain highly loyal to those that deliver real value.

■ Question: How do you win a price war? Answer: You can't.

Today's consumers have caught on. They know that if they wait around long enough, the hot new product or service they want will come down in price. So they wait for the bargain, making it tougher and tougher for companies to sustain sizable profits on even their best-selling products and services. What can these companies do?

Instead of selling products or services separately, innovative companies can bundle them into what Accenture calls *lifestyle solutions*—combinations of products and services that are more valuable than the simple sum of their parts, because they serve the customer from the customer's perspective. A lifestyle solution can be designed to solve a particular problem, such as getting a consumer through the daily bottleneck caused by a lack of time. Or it can dramatically enhance a consumer's enjoyment, say, by improving a travel or entertainment experience. Consumers will pay a premium for such lifestyle solutions, and they will remain highly loyal to those that deliver real value. Lifestyle solutions also create new opportunities for growth, allowing companies with struggling brands to build new ones based on different value propositions.

The idea is not revolutionary. Lifestyle solutions have been around (although they weren't known by that name) since at least 1939, when General Motors Corporation came up with an ingenious plan that revolutionized the auto industry. Eager customers in GM showrooms often needed more than cars; they needed the money to buy them. So the company took a leap out of its traditional line of work and into the lending business with the creation of General

Motors Acceptance Corporation. Competitors followed suit.

Over time, financing the purchases of automobiles has become more profitable than making them. (During the past decade, GMAC's profits have averaged 7.57 percent, compared with 2.55 percent for the carmaker itself.) And, of course, GM's efforts to create lifestyle solutions didn't end there. In 1996, the company introduced OnStar, its in-vehicle communication system. Today, OnStar is profitable, and it is hoped that the service will be the next great source of earnings for the industry.

Timely research

What is new about today's lifestyle solutions is that, by taking advantage of stunning recent advances in consumer research, companies are able to design them more effectively. In the past, surveying consumers was expensive, clumsy and slow—often so plodding that the results were out of date by the time they were gathered and analyzed. During the six-month gap between the start of a traditional survey and the resulting report, technology, prices and sometimes even consumer attitudes could mutate so dramatically that the results were no longer relevant.

Now it's possible to get the results of a complex survey overnight and far less expensively. A decade ago, a telephone and direct-mail survey that tested two or three potential product bundles might cost hundreds of thousands of dollars. Today, thanks to technologies such as e-mail and auto-dialed telephone calls, companies can survey consumers not only quickly but with minimal intrusion. (For a related story, see page 32.)

Moreover, new software that's affordable for even the smallest business

can analyze the data with astounding speed on a desktop computer, using complex statistical methods to deliver detailed answers to companies trying to create lifestyle solutions. What that means is that any company can query consumers on scores of combinations of products and services, with results delivered in days, not weeks or even months.

These advances enable manufacturers and service companies to determine what bundles consumers want most—and what they will pay for them—far more rapidly, much more accurately and at considerably less cost than ever before. The emergence of these capabilities offers companies of all kinds an extraordinary new opportunity to win with lifestyle solutions.

Accenture came to understand lifestyle solutions by careful study of the consumer electronics industry (see “About the research,” page 56), so most of our examples come from this research. Still, we are confident that the same techniques can address similar challenges across industries.


Practical and concrete

Although *lifestyle solutions* sounds like an exotic and perhaps dreamy concept, it is, in fact, both practical and concrete. Indeed, it is the third stage of an evolution that many companies are already going through (see chart, below).

The first evolutionary stage is *price bundling*, a technique that has been shown to work across an array of industries, from consumer electronics

Evolution of a solution

Lifestyle solutions (see story) represent the third stage in a development originally known as bundling that many industries are already experiencing.



	Price bundling	Product bundling	Lifestyle solution
How created	Combines separate products and sells the package at a discounted price	Integrates two or more complementary products and services and sells the package at any price	Solves a pervasive need by bringing together and selling diverse products and services across industries
Risk of imitation	High, possibly resulting in a price war	Moderate, likely giving advantage for only one design period or product cycle	Low, due to “lock in” of key providers
Effect on brand	Diminishes brand due to discounting	Can improve brand, if seen as innovative or value-enhancing	Improves brand through: <ul style="list-style-type: none"> • Positive ownership of solution space • Enabling a new brand position
Effect on profit margin	Destroys margin to gain market share	Captures remaining margins in a mature or commoditized offering	Creates new margin by enlarging the value proposition

Not all lifestyle solutions are designed to solve problems. Some are created to enhance experiences.

to hospitality. Hewlett-Packard Company, for example, recently leveraged the connection between digital cameras and photo printers by offering consumers a \$75 rebate for buying both together. That's basically a variant of what restaurants have been doing for many years with *prix fixe* menus. Diners who buy a package of three or four courses get them for less than if they buy them separately. (Not every diner likes the limited choices, but others appreciate the chef's help in deciding what goes well together and are happy to have a dessert they would have otherwise passed up.)

The second evolutionary stage is *product bundling*. In the early days of sending data from one computer across phone lines to another computer, consumers had to buy external dial-up modems for as much as \$300. These days, tiny modems are inserted into PCs so routinely that consumers take the bundling for granted. To be sure, product bundling does not always work. Certain cellular-phone makers found this out in their early attempts to build personal digital assistants into their phones.

Finally, bundling evolved into its third stage, *lifestyle solutions*. But the lifestyle solution is not simply an incremental improvement; the thought process required to reach it is different. With lifestyle solution bundling, the manufacturer or service provider must see consumers not as targets with particular demographic profiles but as individuals with stresses, problems, needs and desires, some of which they might not even realize.

To understand lifestyle solutions that solve deep consumer needs or bottlenecks, consider some emerging offerings.

Astute operators of day-care centers are recognizing that the pressures their clients face go beyond finding high-quality babysitting. Parents rushing to drop off or pick up their children are also hurrying to pick up dry cleaning, grab their morning coffee and run a host of other errands. So some day-care centers have become morning-frenzy managers, carrying out those tasks—and sometimes much more—for their clients. Take Ohio-based Creative Playrooms, for example. In addition to providing traditional child day-care services at seven locations in the Buckeye State, the company provides harried parents with 24-hour access to various professionals, including doctors and financial planners.

Verizon Wireless knows that many customers value cell phones most for their potential usefulness in an emergency. So the telco has developed a roadside assistance program that's tied to its cellular service. For a few extra dollars a month, Verizon Wireless customers can press a button or two on their cell phones and summon a nearby tow truck (the first three miles of towing are free). The plan also includes the services of a mechanic and a locksmith (for which the customer pays charges of more than \$50).

Not all lifestyle solutions are designed to solve problems. Some are created to enhance experiences. Apple Computer has been assembling an array of components that will appeal to music-loving consumers. In 2001, Apple introduced iPod, a digital music player about the size of a deck of cards that sells for as much as \$500. Users can store as many as 7,500 songs on an iPod and play them for up to 10 hours without a battery recharge. Now Apple has added another component, an online service called iTunes

Music Store with which a customer can download music from the Internet through any computer and into an iPod for 99 cents a song. So from the consumer's point of view, Apple has put itself and its brand at the center of the music business through an adroit mix of hardware, software and content.

Sentimentalists have a different passion. They might want to store visual and audio memories, for example, recording their experiences and those of family and friends in mixed media, digital photo albums or hard copy, moving images or stills, and then storing and sharing those memories with others. A lifestyle solution here might include a digital camera as well as a camcorder, a scanner, a computer with a DVD burner and a printer capable of turning out high-quality color photos. It would also logically include software to manage the memories and have music and video content to augment the digital scrapbook. Some manufacturers, including Apple and Sony Corporation, have begun to organize and sell their components around such a concept, although no company has fully realized the vision as of yet.

Better by design

Ideally, lifestyle solutions are broad and flexible in scope, allowing consumers to bring together only desired components. More important, a solution can evolve over time. For example, the consumer who buys a digital camera today may not want, and should not need to buy, a scanner at the same time. Still, the lifestyle solution should provide incentive to do so later.

This doesn't mean sellers have forever to attract customers. Research indicates that some related components are almost always bought

within a set time period. For example, a consumer who doesn't buy a scanner within four months of buying a digital camera will probably never buy one. The message for the scanner manufacturer: Target that consumer heavily within the four-month window—and if he hasn't bought by then, forget about him.

Lifestyle solutions design should also have enough flexibility for the consumer to mix expensive components with low-cost ones. A home theater solution, for example, might include a \$2,000 big-screen television as well as a \$100 DVD player. The key is not high prices but profitable combinations.

One cross-industry combination that has proven extremely profitable has evolved at the intersection of insurance and consumer electronics. Although the extended warranties now available on most electronics sell for only a fraction of the covered goods' cost, they can be far more profitable than the electronics themselves. Profit margins on extended warranties can range from 40 percent to almost 80 percent.

Once a company accepts the principles underlying lifestyle solutions, it must determine how to apply them to its particular situation. There are many questions to address, but three are critical: What components will go into the solution? How should the solution be priced to maximize profits? How should the solution be branded?

The only way to get the answers, short of expensive experimentation in the marketplace, is to explore consumer thinking. Accenture's research into these questions for the consumer electronics industry has yielded insights that every executive who is considering

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creating a lifestyle solution should keep in mind.

What to include. Manufacturers tend to focus on creating bundles of existing products, particularly their own. The result is bundles with mass appeal, not bundles designed for specific demographics. Our research suggests that this approach might be a mistake.

For example, in assessing components in a hypothetical home theater solution, men place much greater emphasis than women on manufacturer and retailer brands. Women are far more interested in bundles of goods and services that would put new content, such as movies on DVD, in their hands early. That could be an opportunity for a lesser-known

electronics manufacturer to woo female shoppers through a partnership with a formidable content provider. The manufacturer could ally itself with a major media company and guarantee customers early access to that company's movie releases on home video and DVD.

What to charge. Perhaps the most welcome news for manufacturers that have suffered through price wars is that although consumers continue to focus on the price tag when buying individual TVs, DVD players and other electronics, they are willing to pay premiums for bundles. With our hypothetical home theater solution, for example, they are far more concerned about whether a component will become obsolete than with how much it costs.

About the research

Our conclusions regarding the opportunities presented by lifestyle solutions (see story) are based on two large-scale studies conducted by the Accenture Institute for Strategic Change and Accenture's Communications & High Tech marketing unit. The insights reflect a combination of primary and secondary research conducted over a two-year period.

Our most recent survey, sent via e-mail to a proprietary list of 16,000 people, tested consumer attitudes toward specific hypothetical lifestyle solutions and toward lifestyle solutions in general. The first part, which had more than 800 respondents, was made up of attitudinal and behavioral questions about consumer electronics consumption, as well as demographic questions. The survey's second part consisted of choice-based questions about different combinations of components within a bundle for each of three hypothetical lifestyle solutions. We received approximately 250 valid responses per bundle tested, for a total of 750-plus responses. We analyzed the responses to understand how much consumers weigh each component of the bundles offered, such as brand, price and related offerings, in their purchase decisions. We also analyzed this information to understand

consumer brand preferences for manufacturers and retailers, both individually and in different combinations. We based brand premiums, or consumers' willingness to pay for chosen brands, on selective baseline prices.

Secondary research complemented the surveys and included the analysis of academic research on successful bundling strategies as well as historical observations about bundling efforts both within and outside the consumer electronics industry.

While our research provides a solid basis for further exploration by manufacturers, our data reflects consumer attitudes toward only the specific bundles and offerings at the prices tested. Manufacturers therefore must conduct additional research to understand the demand for their own solutions.

The results of these studies, "Watching for Value Migration in Consumer Electronics" (Accenture 2002) and "Working Together: Bundling Consumer Electronics into Lifestyle Solutions" (Accenture 2003), are available on our website: www.accenture.com.

Indeed, our analysis has revealed that consumers are willing to pay an additional \$400 on a \$2,000 bundle of components to be assured that the components are not going to be rapidly outdated by new formats and standards. When asked directly what would keep them from purchasing a solution, consumers ranked price only fourth among their concerns, trailing, in order, fears of obsolescence, installation difficulty and poor performance quality.

The role of brand. Not surprisingly, consumers will pay a premium for lifestyle solutions produced by certain manufacturers or sold by certain retailers. Less predictable is how much they will pay for various combinations of those brands. For example, in our home theater solution, consumers saw increased value in combining the top-ranked manufacturer with the top-rated retailer. But they saw no additional value in other combinations. And in some cases, pairing certain mid-ranked manufacturers with certain retailers actually caused consumers to value the solution far less than the combination of their separate valuations. The lesson is that because it's hard to predict how consumers will react to different product combinations, these combinations must be thoroughly tested.

For example, the manufacturer that ranked second in our test of a "work at home" solution lost value in consumers' minds when it was paired with top-ranked and high-end retailers, but it realized considerable additional value when it was paired with the mass merchandisers tested. The reasons for this are not clear. Perhaps consumers believe a partnership between two mid-level organizations is less prone to confusion about brand positioning and to debilitating culture clashes than a

partnership between low-rated and highly rated companies.

The same technology and methods can be used to create lifestyle solutions across a range of industries. Think of elder care. Independent living communities grew up in the 1970s, and today they constitute a huge and complex industry. But there is still much to learn about how the components of this industry could be bundled in ways that are even more appealing to an aging population. For example, testing could uncover consumer feelings about multiple combinations of apartment complexes, recreational activities, transportation options and healthcare regimens. Which partnerships would these consumers trust most? Which rental car company, for example, should provide the transportation options in partnership with which hotel chain for property management?

The ultimate goal, still distant and elusive, is to deconstruct human experience and see it as dozens, perhaps hundreds, of clusters of lifestyle needs. The task of effective consumer research is to define and understand those needs. And then the imagination must fulfill them. Companies that master the principles of creating and marketing lifestyle solutions will be victorious, with or without the next breakaway product.

Over the long term, the strategy that will reward companies, and gratify consumers, will not be the frenzied search for an endless series of hot new items. It will be the thoughtful assembly of products and services into lifestyle solutions. The bundles will change over time with technology and tastes, not for the sake of novelty

but out of deep understanding of what consumers desire. ■

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