



P³ Profitable Product Performance

Target Costing inside

Concept for the Window of Opportunity and the Enthusiasm Model at MD

Introduction

- The purpose of this paper is to **explain the approach of the Window of Opportunity and the Enthusiasm Model** within the Target Costing methodology.
- The paper is **one of 6 concept papers** in the Target Costing compendium for MD.
- The paper is divided into 2 chapters:
 - The first chapter gives a **methodological overview** of the tools.
 - The second chapter provides a view on how to **customize** the Window of Opportunity and the Enthusiasm Model to the **specific situation of MD**.

Agenda

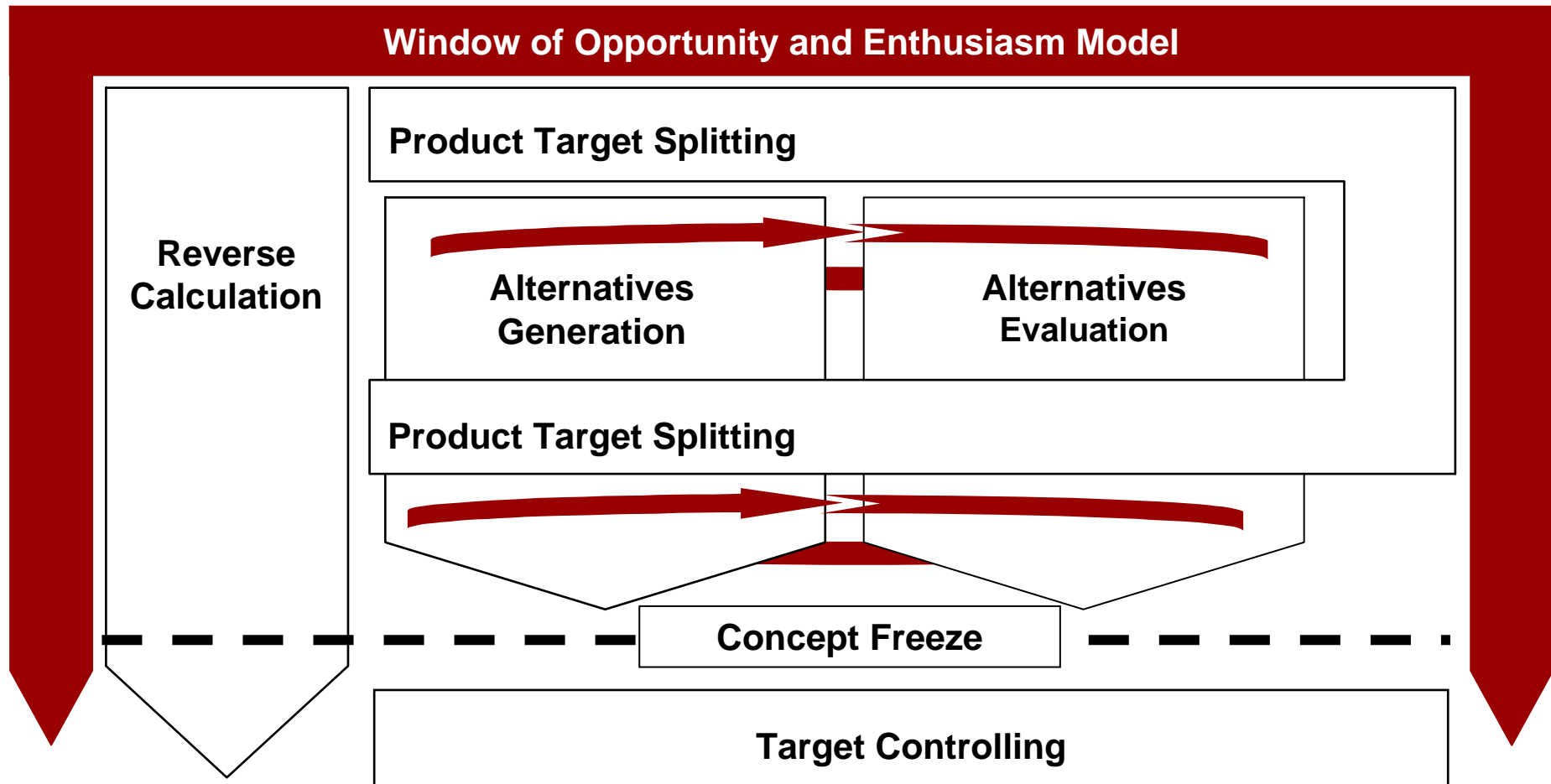
- **Methodology of the Window of Opportunity and the Enthusiasm Model**
- The Window of Opportunity and the Enthusiasm Model at Siemens MD

The Target Costing concept

The Enthusiasm Model translates market knowledge into clear objectives of product development and guides the subsequent Target Costing steps

Market Research

Window of Opportunity and Enthusiasm Model



Definition and benefits of the Enthusiasm Model

The Enthusiasm Model aims to develop products according to identified market opportunities

The Enthusiasm Model (EM) is one of the **key tools to develop market orientated products** in the Target Costing approach.

The main objective of the Enthusiasm Model is the implementation of market orientation in the product development process.

By differentiating between **Basic, Performance and Enthusiasm Requirements** the EM triggers **sharp product positioning** for a well defined “**window of opportunity**” and thus **enhances the company’s market focus**.

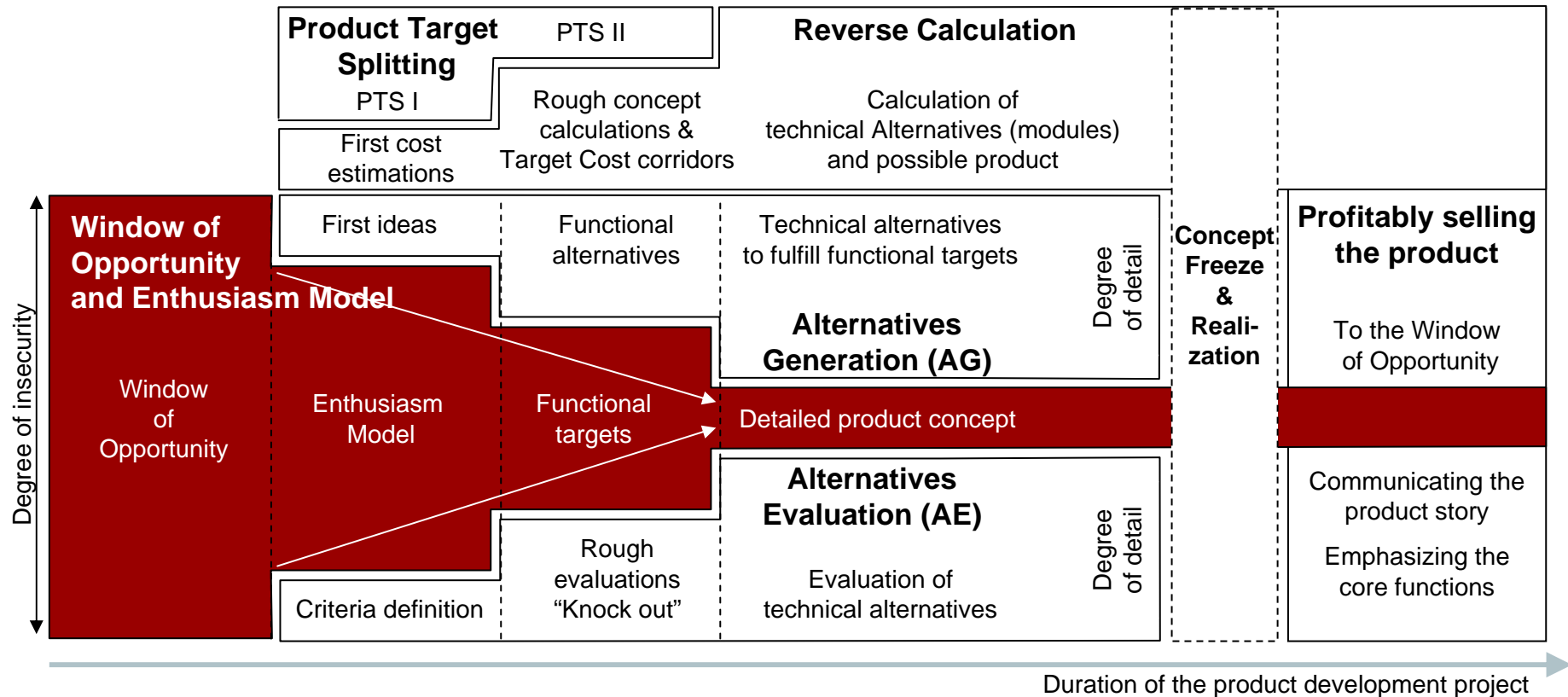
The Window of Opportunity as part of the Enthusiasm Model is providing the framework for a consistent product definition, for a certain point of time. Therefore it defines the proposition of the product, the target market, the target positioning in the portfolio and a first range product idea.

Benefits of the Enthusiasm Model

- **Implementation of market orientation** in the product development process.
- **Focusing product development on “what matters most” through the definition of a clear and precisely described “window of opportunity”**
- **Structuring and guiding the “front-end” of product definition by grouping of product functionalities** into three categories:
 - Basic Functionalities
 - Performance Functionalities
 - Enthusiasm Functionalities
- Ensuring a **competitive Basic Functionality set** and putting the attention on those functionalities (Performance and Enthusiasm Functionalities), which **differentiate** the products from the competitive ones
- **Emphasizing on the necessity** of at least **one sustainable Enthusiasm Functionality** in each product concept
- Supporting **objective and market-oriented discussions and goals** and a widely understood description of “**what shall make the product tick**”
- Determining of **how certain functionalities shall contribute to customer satisfaction** and trigger enthusiasm
- Providing a **solid basis for “cost down” and “value up” measures** and thus **driving profit maximization**

The Enthusiasm Model as front-end and driveline of product definition

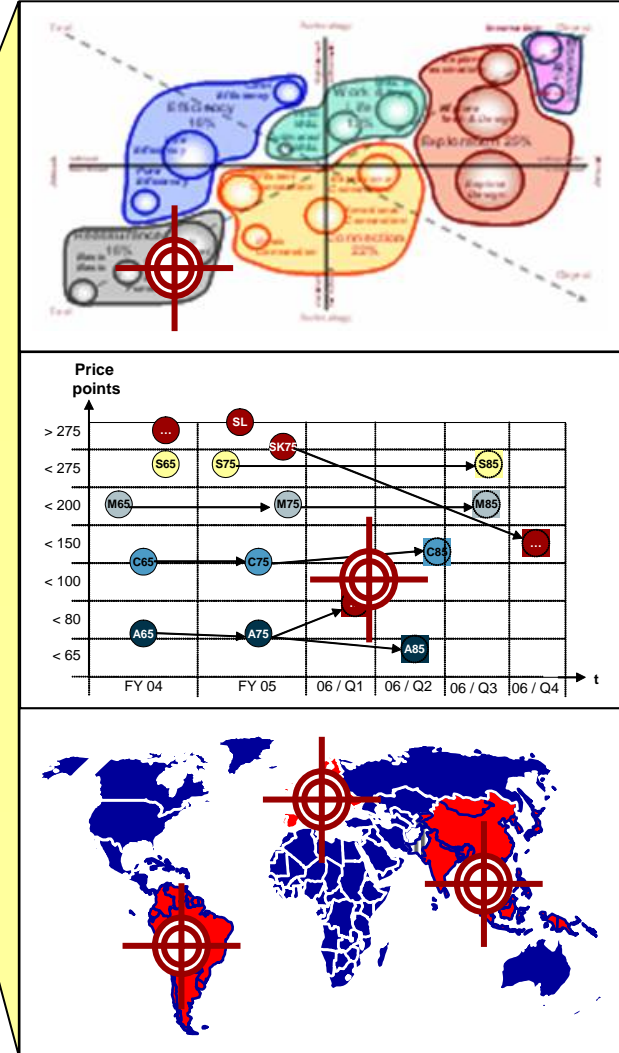
The EM as a first step triggers Alternatives Generation and Evaluation and becomes more precise during the product development process until it steers focused product sales



The Window of Opportunity

To ensure a target oriented product definition the Window of Opportunity has to be sharply described for each product to ensure market orientation and cost consciousness

Pro-position	<ul style="list-style-type: none"> Why are we making this product: ...
Target market (retail-user and operator)	<ul style="list-style-type: none"> End-user (sub-)segment: A, sub-segment A2 Regional market focus: w% EMEA, x% NAM, y% LAM, z% APAC Sales channel split: Operator x% vs. retail y% Key operators addressed: A, B, C Main reference/competitor products: product A /product B, C, D
Target positioning in portfolio	<ul style="list-style-type: none"> Story/technical successor to: Product A/product A Price Point: Launch at x € falling to y € (EOL) Launch date/lifecycle: mm.yy. / 12 months Addressable Market: x Mio. units in the markets Planned volume/ market share: xy Mio. Units Target Profit: x %, approximately y Mio. €
Product idea	<ul style="list-style-type: none"> Product idea: "..." (slogan) Key theme: Use cases: A) ..., B) ..., C) ... Dedicated innovation:



The Enthusiasm Model

To secure market orientation in product development the Enthusiasm Model structures product characteristics and functionalities into the categories basic, performance and enthusiasm

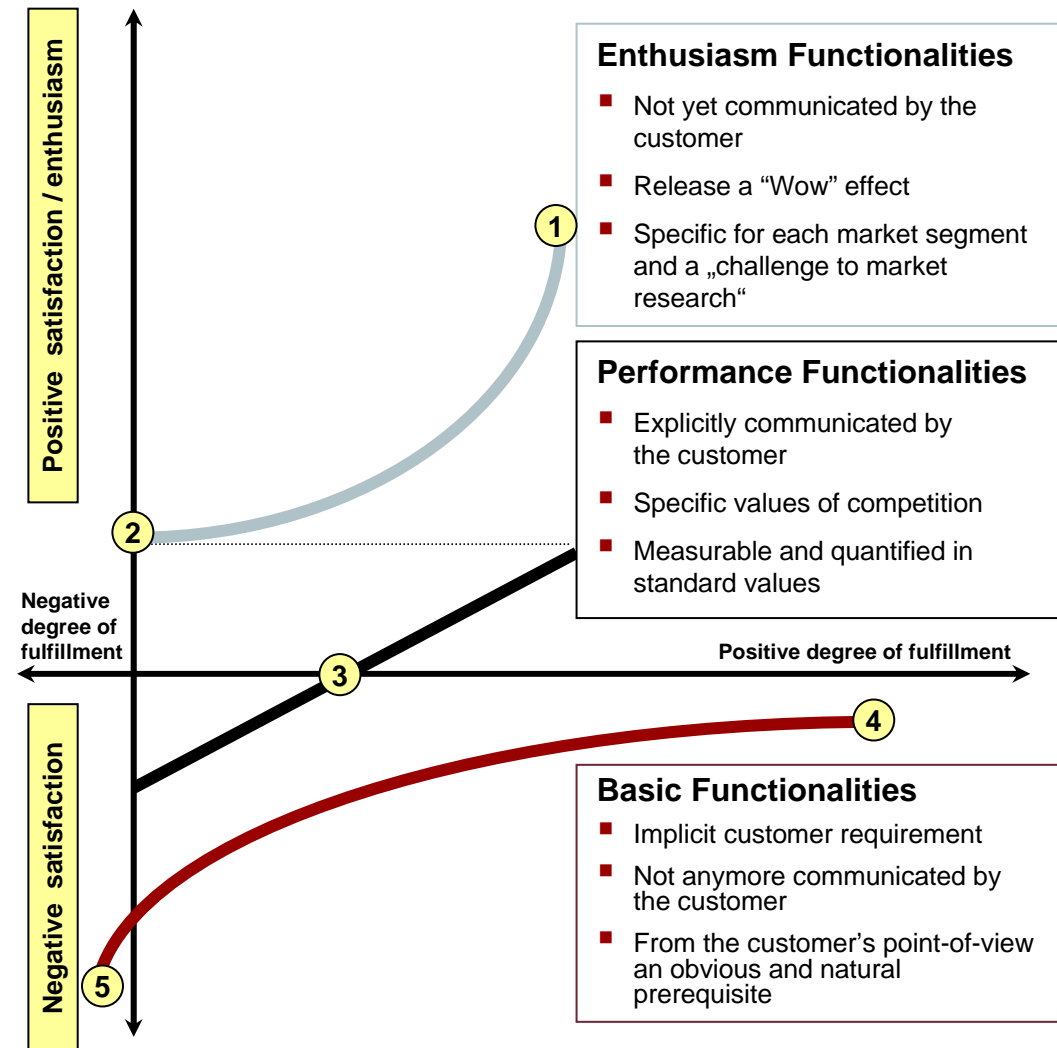
1 An Enthusiasm Functionality that is **precisely fitting** to the Target Group and **perceived by them as innovative and well solved** – plus, is **sold in an emotional way** - outperforms all other functionalities in contribution to satisfaction

2 The **mere existence** of an Enthusiasm Functionality that **fits to the Target Groups' needs** can cause the same degree of satisfaction as a complete fulfillment of all Performance Functionalities does.

3 A partial **existence** of Performance Functionality ensures a **neutral degree of satisfaction**. Only **full compliance** with the market standard of the Performance Functionalities will reach to the **rim of triggering enthusiasm**.

4 Even the **existence** of a **full set of Basic Functionalities** does **not drive positive satisfaction**. Only an **additional combination of Performance Functionalities and an Enthusiasm Functionality** causes the product to take part in the eventual buying decision of the respective customer (with his preferences)

5 The **lack of a Basic Functionality** causes **negative satisfaction** and even a full set of Basic Functionalities does not yet assure positive satisfaction and market acceptance: "Basic is simply not enough."



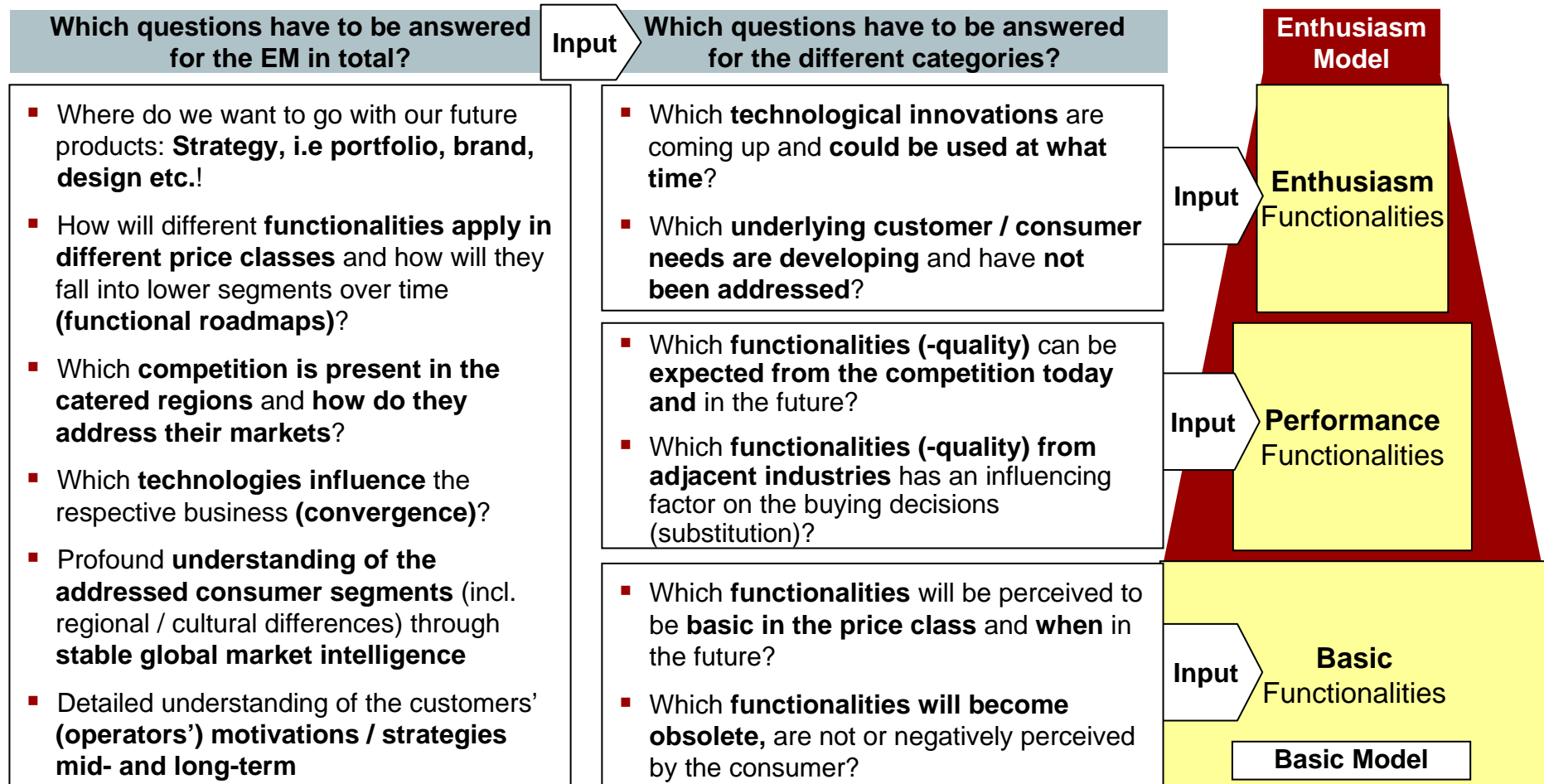
Explanation of functionality types

Basic Functionalities are a must, whereas Performance and Enthusiasm Functionalities add value for the customer

Basic Functionalities	Performance Functionalities	Enthusiasm Functionalities
<ul style="list-style-type: none"> Market standard of a product Included in all competitive products Not expressed, but expected as a matter of course by the customers If the functionality is not included in the product it represents a strong argument against a purchase <p>Typical statement</p> <hr/> <ul style="list-style-type: none"> <i>“Ok, the product has the common characteristics of all these products. But I expected that anyway.”</i> <i>“Oh, the product is missing something I would have taken for granted. Sorry, but I will therefore not buy it.”</i> 	<ul style="list-style-type: none"> Directly comparable to competitive products Important influence factor on the buying decision Exceeds the characteristics of Basic Functionalities Typical “brochure information” <hr/> <ul style="list-style-type: none"> <i>“Ah, this product is better than the other one I was thinking of buying.”</i> <i>“Now, let’s see if the product has this particular functionality everybody is currently talking about.”</i> <i>“Evaluating this product, it has advantages in some functionalities and disadvantages in others. Overall however, it meets my needs. But what makes it tick?”</i> 	<ul style="list-style-type: none"> The presence of Enthusiasm Functionalities is the unique and sometimes final trigger for the buying decision (USP) Enthusiasm Functionalities are often innovations that become evident to the customers for the first time Working with lead users, identifying definite trends and thinking in “hard-fact” use cases helps identifying Enthusiasm Functionalities first Enthusiasm Functionalities are a consistent extension of core competences into product solutions <hr/> <ul style="list-style-type: none"> <i>“Oh, what a surprising solution for a problem I had but did not expect a solution for!”</i>

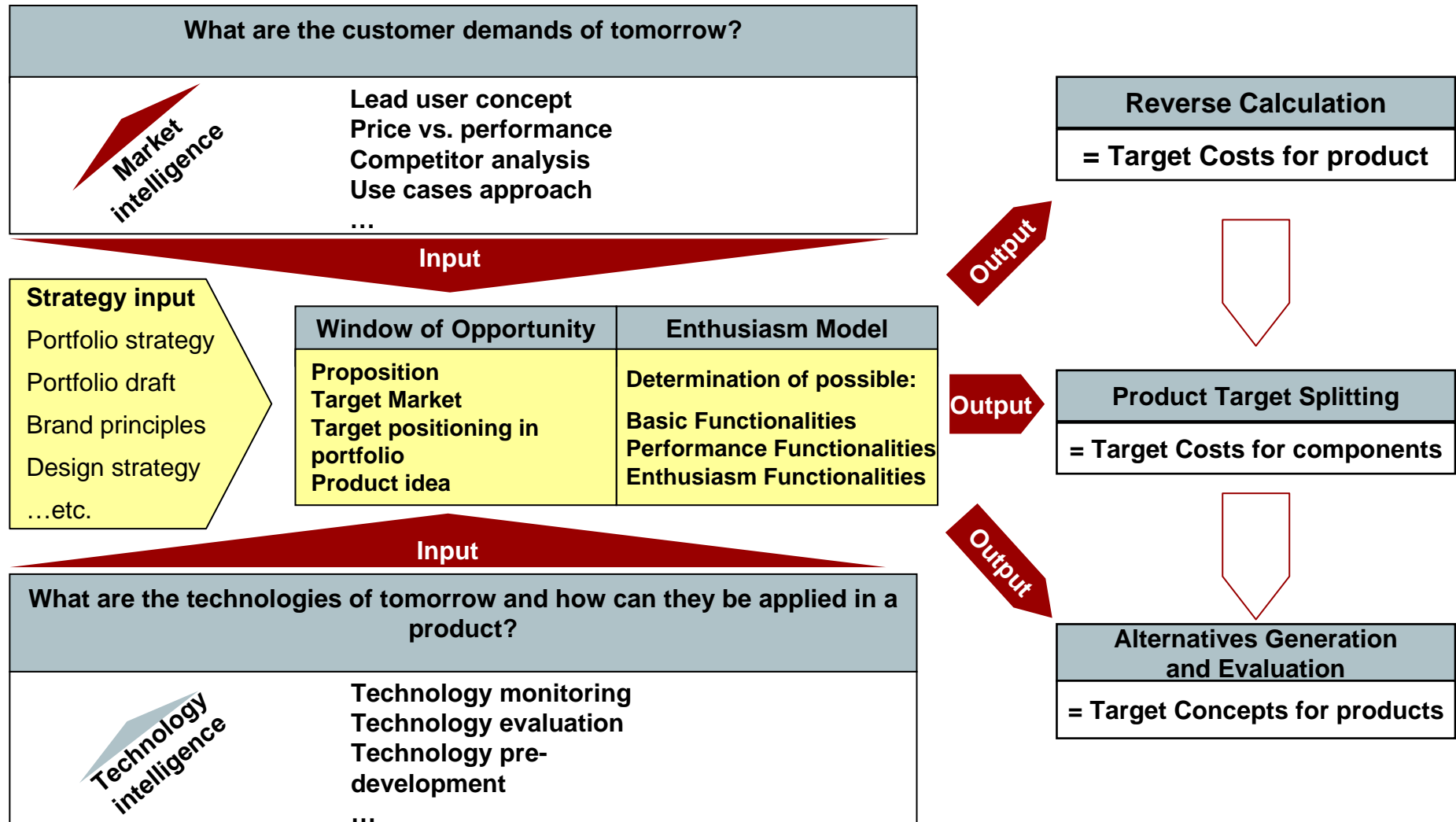
Building an Enthusiasm Model pyramid

The three different categories of the Enthusiasm Model depend on answering various general and some category specific questions



Identification of customer demands and usage of information

The reliability of the Enthusiasm Model depends on a clear strategy input and a high quality of market and technology information

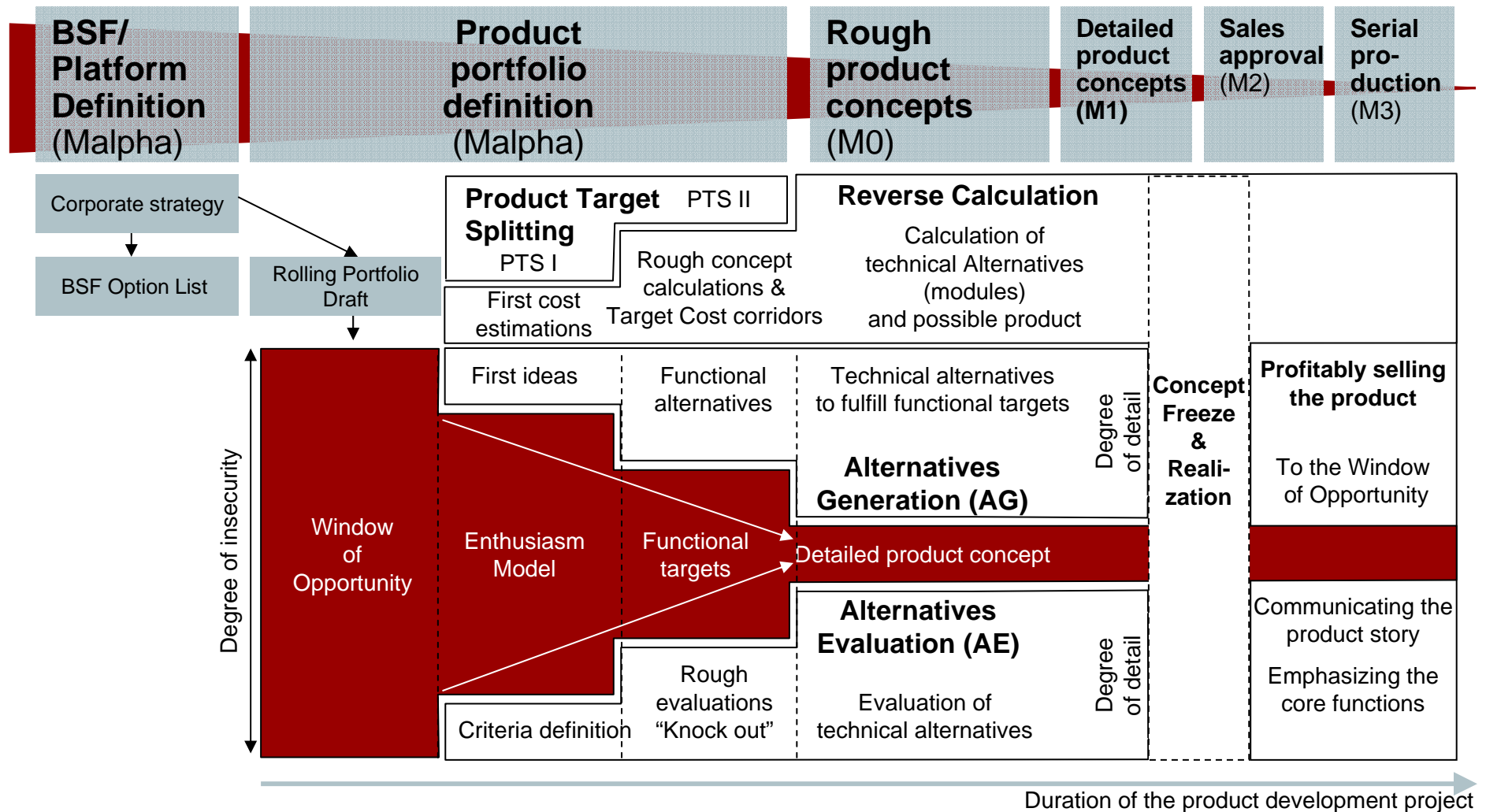


Agenda

- Methodology of the Window of Opportunity and the Enthusiasm Model
- **The Window of Opportunity and the Enthusiasm Model at Siemens MD**

The role of the Enthusiasm Model within the Target Costing toolset

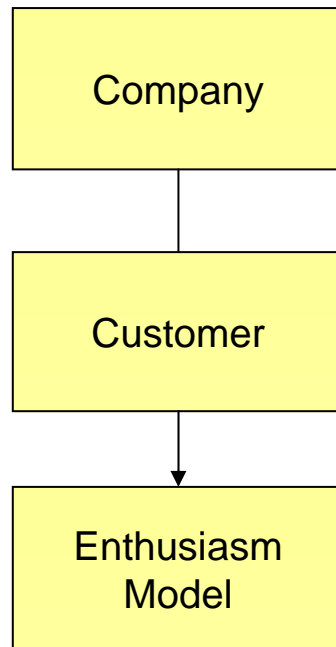
A detailed market input is a prerequisite for a successful Enthusiasm Model



Adaptation of the Enthusiasm Model

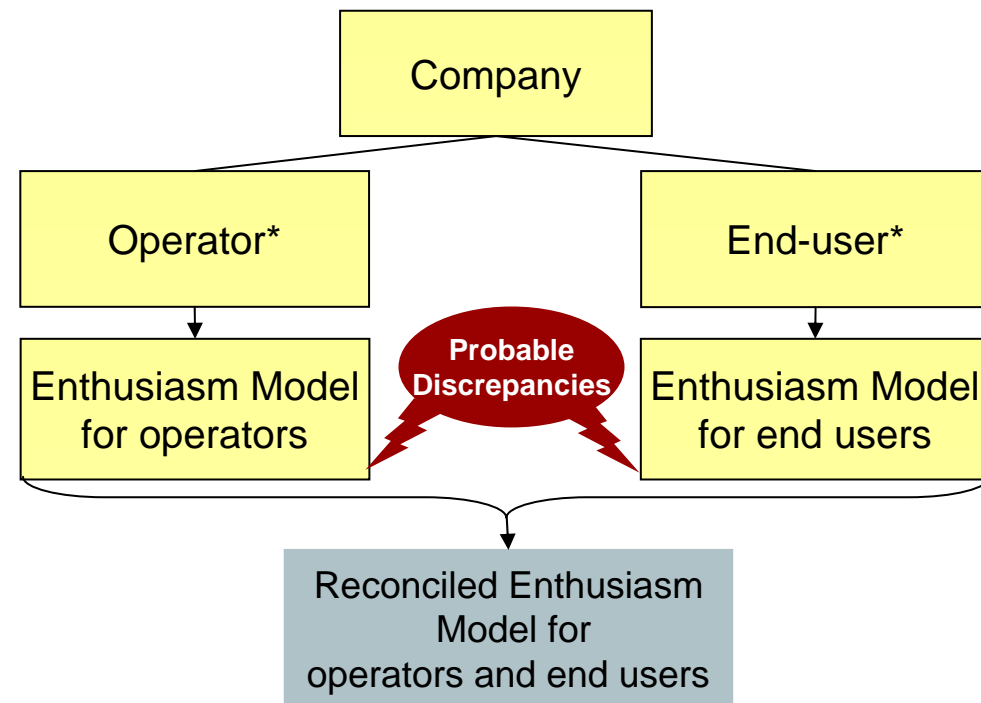
The standard Enthusiasm Model has to be adapted for MD to take differences in operator and end user demands into account

Standard Enthusiasm Model



Adaptation

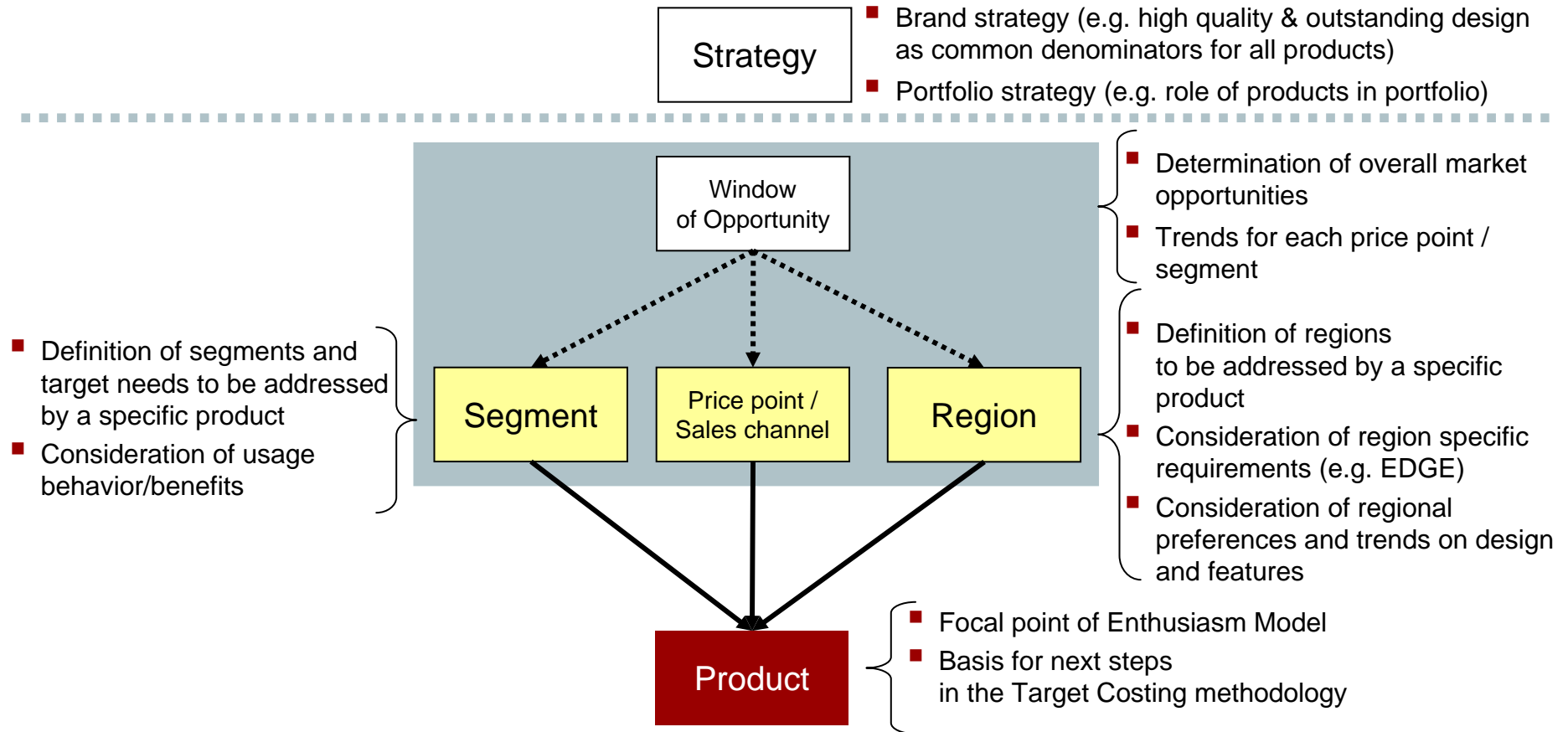
Enthusiasm Model at MD



*Note: The notion of “operator” comprises all B2B customers. Specific retailer / distributor needs are seen to be same as end-user requirements.

Environment and focus of the Enthusiasm Model

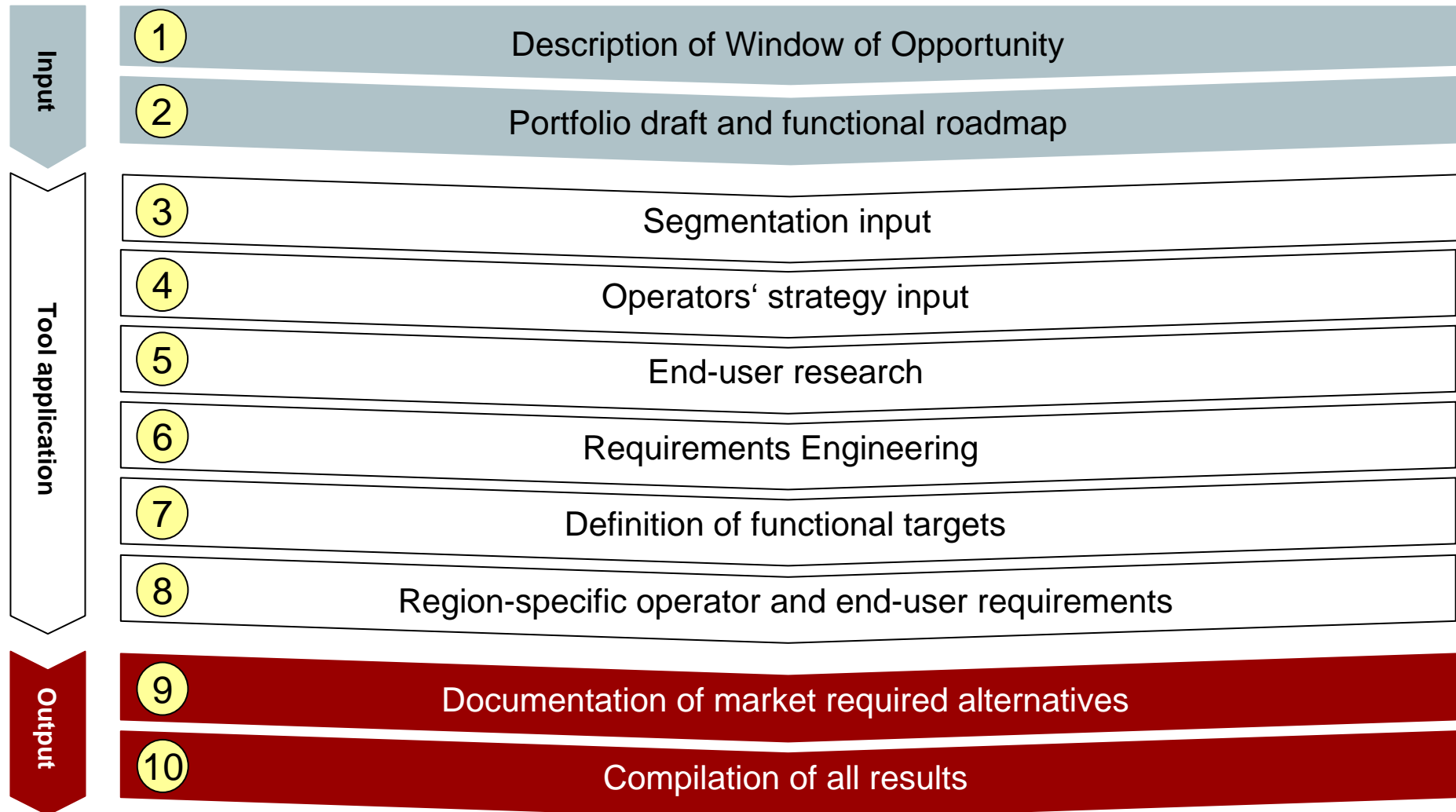
Based on the identified Window of Opportunity the Enthusiasm Model is developed for every single product



In the **long run**, the Enthusiasm Models on **portfolio level** can be designed in order to achieve a „**common enthusiasm identity**“ and **recognition of all products of MD**.

Ten steps to define Enthusiasm Models at MD

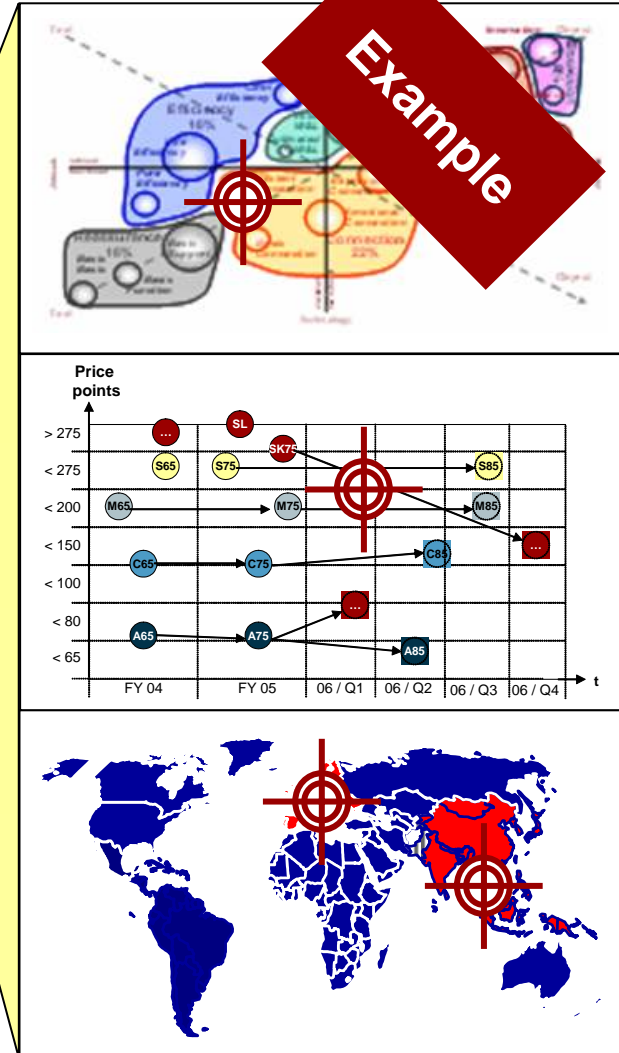
A 10 step approach for translating corporate strategy into an Enthusiasm Model for every single product



The Window of Opportunity for Product A

To ensure a target oriented product definition the Window of Opportunity has to be sharply described for each product to ensure market orientation and cost consciousness

Pro-position	<ul style="list-style-type: none"> Why are we making this product: Create a top 3 seller for the S-class segment in order to secure MD's position within the price class during 2004
Target market (retail-user and operator)	<ul style="list-style-type: none"> End-user (sub-)segment: expressive Connection Regional market focus: 60% EMEA, 0% NAM, 0% LAM, 40% APAC Sales channel split: Operator 70% vs. retail 30% Key operators addressed: Vodafone, T-Mobile Main reference/competitor products: S55/Nokia 6230
Target positioning in portfolio	<ul style="list-style-type: none"> Story / technical successor to: S 55 Price Point: 260 € falling to 165 € (EOL) Launch date/lifecycle: July 2004 – June 2005/12 months Addressable Market: 35 Mio. units in the markets Planned volume/ market share: 4,5 Mio. Units/22% Target Profit: 10 %, approximately 90 Mio. €
Product idea	<ul style="list-style-type: none"> Product idea: "Your everyday business companion" Key theme: Business Use cases: A,B,C Dedicated innovation: none



Template for use cases – product name

1b

The description of key use cases of the planned product regarding key theme, price point, segment and region help to emphasize on daily usage scenarios

Key theme:
XXX

Price point:
XXX

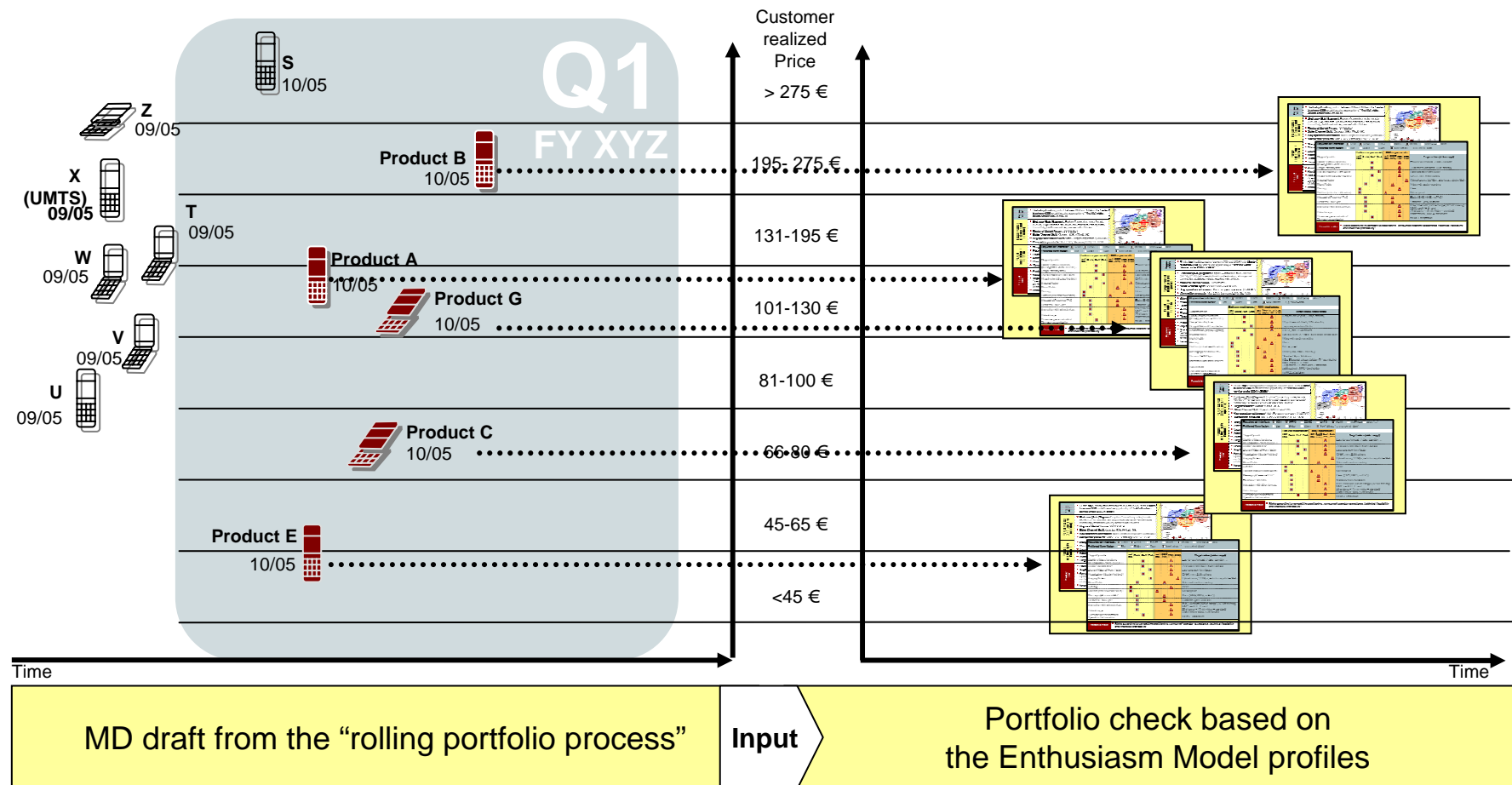
Segment:
XXX

Region:
XXX

Use case	Use case description	Importance	
		End-user	MNO
Use case 1	<ul style="list-style-type: none"> ▪ Situation*: xxx ▪ Frequencies of use case: xxx ▪ Typical course of action: xxx ▪ Related use cases: xxx 	L M H no	L M H no
Use case 2	<ul style="list-style-type: none"> ▪ Situation*: xxx ▪ Frequencies of use case: xxx ▪ Typical course of action: xxx ▪ Related use cases: xxx 	L M H no	L M H no
Use case 3	<ul style="list-style-type: none"> ▪ Situation*: xxx ▪ Frequencies of use case: xxx ▪ Typical course of action: xxx ▪ Related use cases: xxx 	L M H no	L M H no

The linkage of Enthusiasm Model and portfolio draft

For every envisaged phone in the portfolio draft, an Enthusiasm Model as well as a dedicated Window of Opportunity have to be completed



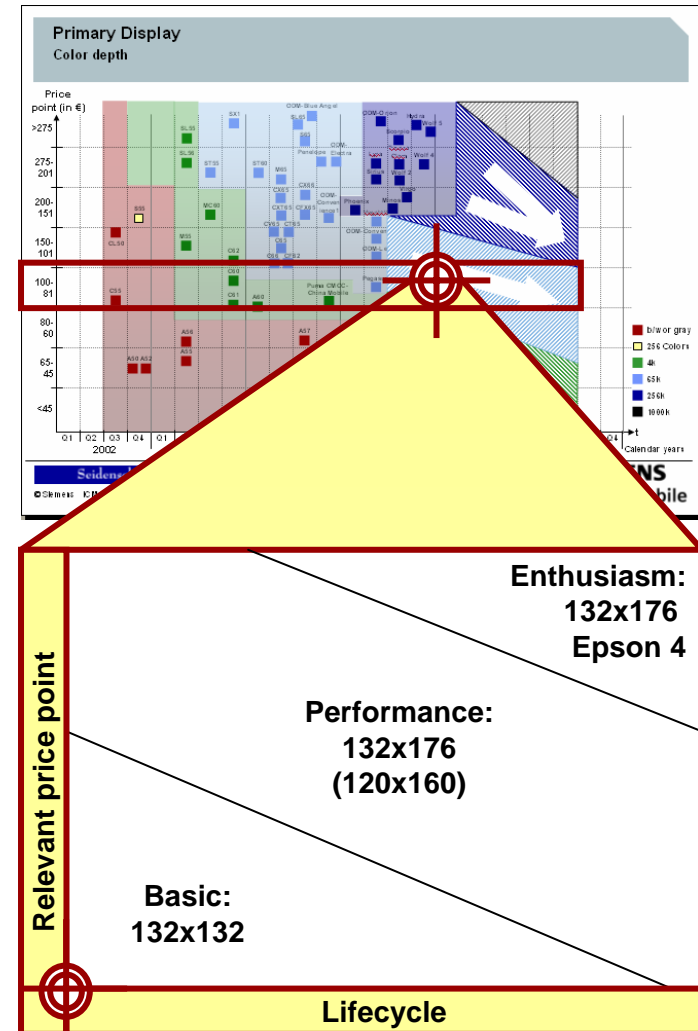
*) Customer Realized Price

Enthusiasm Model uses input from a functional roadmap

2b

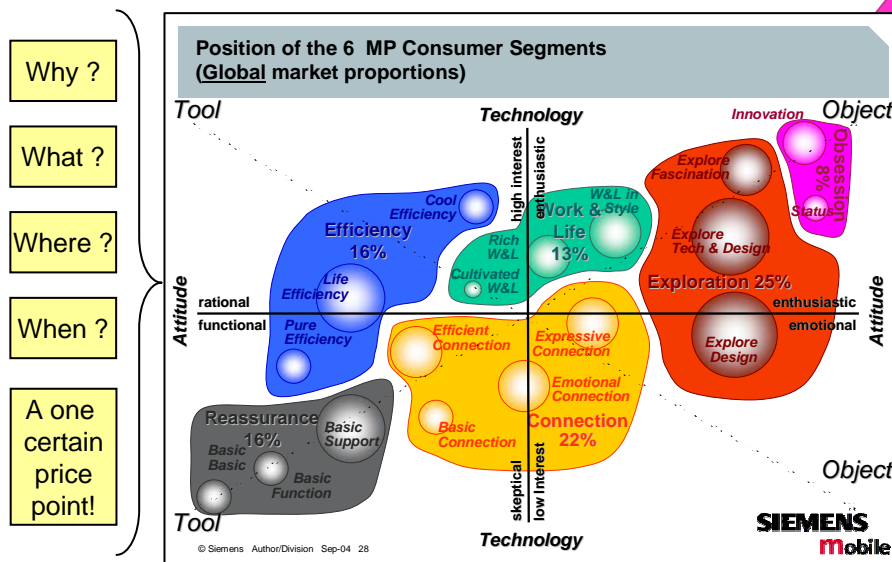
The Enthusiasm Model is benchmarked against a functional roadmap that – derived from corporate strategy - sets the functional goals for different price classes

- At a given price point and a given launch date (⊙) the functional roadmap raises attention to what will by then be the approximate technical Target Value for the respective categories of the Enthusiasm Model
- Certain qualities of e.g. the display will at the launch date be Performance and fall to Basic over the lifecycle. Accordingly, a functionality quality (e.g. Epson 4 vertical alignment) will be Enthusiasm and fall into the Performance category over time.
- The functional roadmap will therefore be a guideline to Alternatives Generation and tune the Enthusiasm Model filter.
- The Enthusiasm Model Filter will narrow the morphologic case to a limited amount of Alternatives.
- Market and competitor benchmarks supplement the analysis and make sure that the functional roadmap is not only an internal goal setting but also assures recognition of the market trends and newly developing industry standards.



The Enthusiasm Model and its link to the need-based segmentation

Through the development of EM Target Profiles for each segment a clear target group focus and thus a sharp product positioning will be supported



Source: ICM MP S&M PM M

	End-user requirements				MNO requirements				Target values (value range)
	not req.	Basic	Perf.	Enth.	not req.	Basic	Perf.	Enth.	
Make and receive calls									Easy to use keypad
Appeal to user									Surprising new form factor
Support imaging									Optical zoom, 3.2 Mpix, auto focus, strobe flash
Support music									Video with audio recording
Provide gaming									Basic
Provide outdoor/recreation features									
Enable messaging									Basic
Support PIM/business applications									Standard Sync-solution
Offer additional services									Basic (SMS, MMS, no PoC)
Provide visualization									QVGA display, min. 256k colors
Interaction with other devices									200 pictures in medium quality
Store data									20 pictures, 15 min. video, MMC card-holder, Standard address book
Consumer personalization/ operator customization									Main operator UI supported
Provide usage and standbytime									300h standby, 300 min. talktime

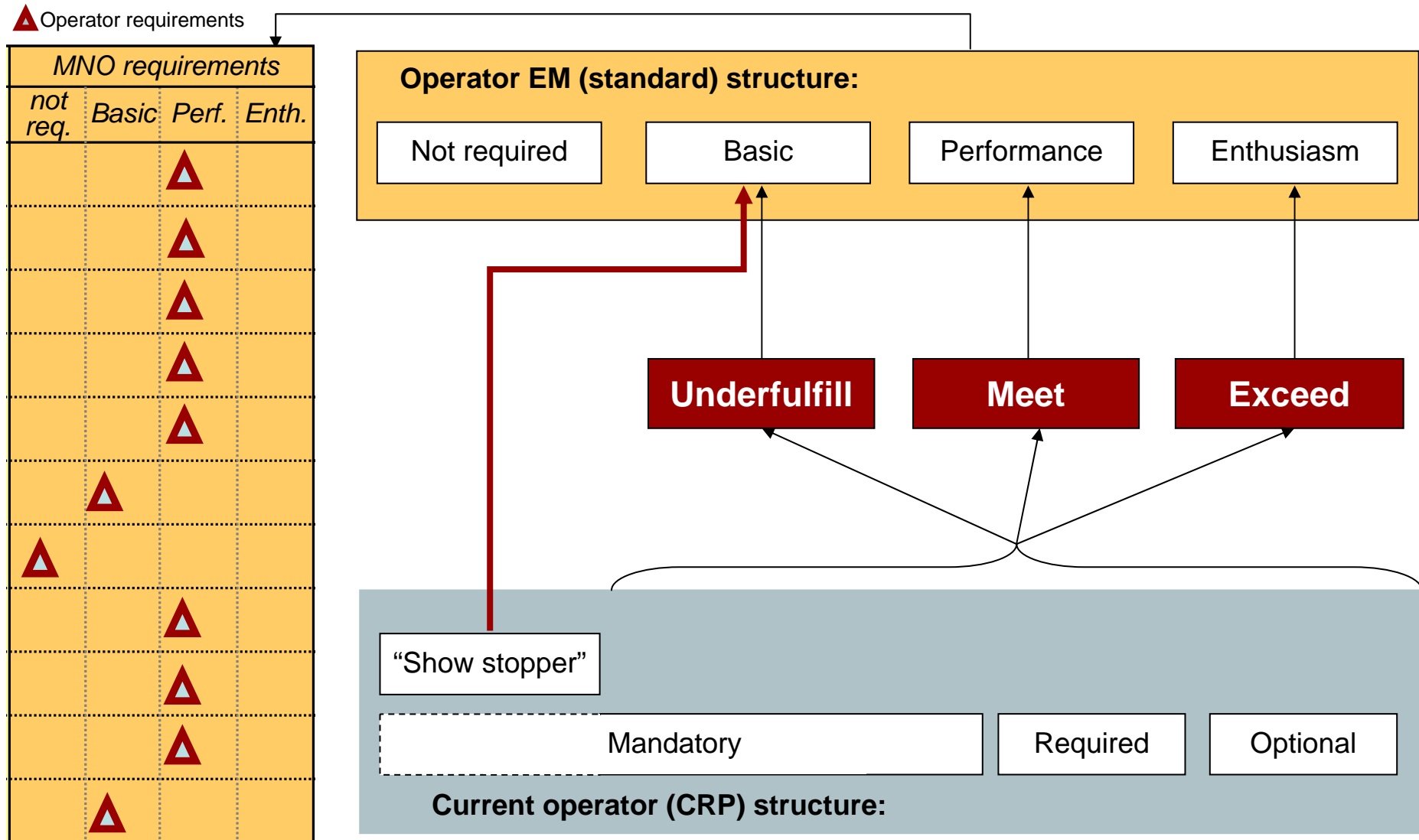
Different segments call for clearly differentiated product concepts.

Thus, the **Enthusiasm Models** as an ex ante profile of the product idea vary naturally. Their structure reflects what matters most to the consumers of the respective segment. It thus determinates what be **Basic, Performance or Enthusiasm** requirements of a product.

	End-user requirements				MNO requirements				Target values (value range)
	not req.	Basic	Perf.	Enth.	not req.	Basic	Perf.	Enth.	
Make and receive calls									Easy to use keypad
Appeal to user									Surprising new form factor
Support imaging									Optical zoom, 3.2 Mpix, auto focus, strobe flash
Support music									Video with audio recording
Provide gaming									Basic
Provide outdoor/recreation features									
Enable messaging									Basic
Support PIM/business applications									Standard Sync-solution
Offer additional services									Basic (SMS, MMS, no PoC)
Provide visualization									QVGA display, min. 256k colors
Interaction with other devices									200 pictures in medium quality
Store data									20 pictures, 15 min. video, MMC card-holder, Standard address book
Consumer personalization/ operator customization									Main operator UI supported
Provide usage and standbytime									300h standby, 300 min. talktime

Structure to translate the operator requirements into the EM

For the consumer as well as for the operator requirements the same enthusiasm categories will be used. To translate the operator requirements into the enthusiasm categories rules are defined.

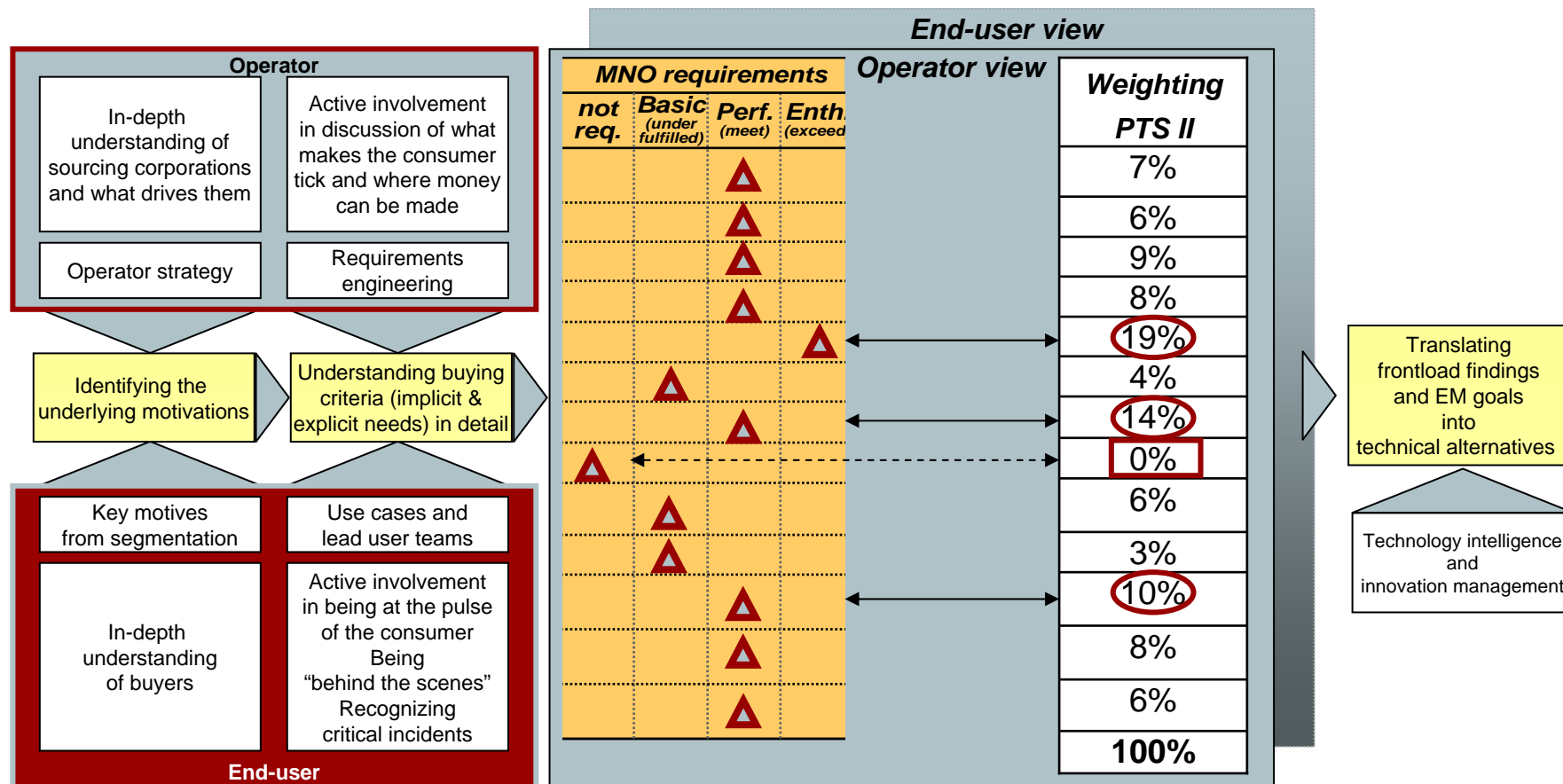


EM relevant inputs from end-user research & requirements engineering

5

6

Causing enthusiasm is the result of a structured and ongoing thinking in market needs and innovation capabilities – thereby the verification with the Product Target Splitting is necessary.

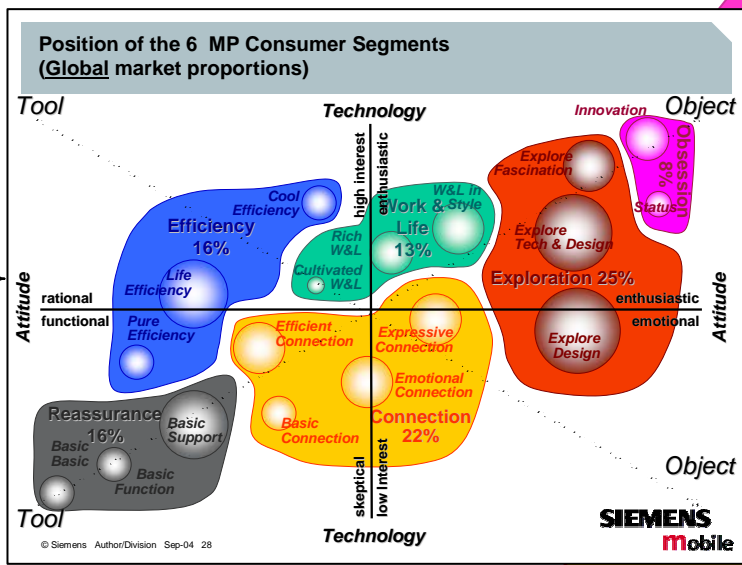


○ Top 3 weighted requirements

Translating the Target Profile into Target Values

After the Target Profile has been defined for end-users and operators, the Target Values describe the aimed for solution in detail

- Why ?
- What ?
- Where ?
- When ?
- A one certain price point!



Source: ICM MP S&M PM M

	End-user requirements				MNO requirements				Target values (value range)
	not req.	Basic	Perf.	Enth.	not req.	Basic	Perf.	Enth.	
Make and receive calls									Easy to use keypad
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Support imaging									Optical zoom, 3.2 Mpix, auto focus, strobe flash
Support music									Video with audio recording
Provide gaming									Basic
Provide outdoor/recreation features									
Enable messaging									Basic
Support PIM/business applications									Standard Sync-solution
Offer additional services									Basic (SMS, MMS, no PoC)
Provide visualization									QVGA display, min. 256k colors
Interaction with other devices									200 pictures in medium quality
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Consumer personalization/ operator customization									Main operator UI supported
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Different segments call for clearly differentiated product concepts. Thus, the **Enthusiasm Models** as an ex ante profile of the product idea vary naturally. Their structure reflects what matters most to the consumers of the respective segment. It thus determinates what be **Basic, Performance or Enthusiasm** requirements of a product.

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Provide outdoor/recreation features									
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Store data									20 pictures, 15 min. video, MMC card-holder, Standard address book
Consumer personalization/ operator customization									Main operator UI supported
Provide usage and standbytime									300h standby, 300 min. talktime

Predefined standard template for the Enthusiasm Model at MD

To secure MD-overall comparable Enthusiasm Models a standard template with predefined functional categories as shown is committed

Required air interface: ☒ GSM ☒ GPRS ☐ EDGE ☐ UMTS ☒ WLAN ☐ VoIP (WLAN) ☐ other: "..."

Preferred form factor: ☐ Bar ☐ Slider ☐ Clam ☒ New/ others: "... e.g. swivel-clam"

	End-user requirements				MNO requirements				Target values (value range)
	not req.	Basic	Perf.	Enth.	not req.	Basic (under fulfilled)	Perf. (meet)	Enth. (exceed)	
Make and receive calls			■				▲		Easy to use keypad
Appeal to user				■			▲		Surprising new form factor
Support imaging				■				▲	Optical zoom, 3.2 Mpix, auto focus, strobe flash
Support music		■				▲			Video with audio recording
Provide gaming	■					▲			Basic
Provide outdoor/leisure features	■				▲				
Enable messaging		■				▲			Basic
Support PIM/business applications		■				▲			Standard Sync-solution
Offer additional services		■				▲			Basic (SMS, MMS, no PoC)
Provide visualization		■				▲			QVGA display, min. 256k colors
Interaction with other devices		■				▲			200 pictures in medium quality
Store data		■					▲		20 pictures, 15 min. video, MMC card-holder, Standard address book
Consumer personalization/ operator customization		■					▲		Main operator UI supported
Provide usage and standby time			■				▲		300h standby, 300 min. talktime

Possible risks

- Risks according to competitive positioning, consumer/ operator acceptance, technical feasibility and financial/ profitability

Consolidation of regional requirements in global products

To secure the functional fit of a globally defined product and its target values, all relevant regional target values has to be regarded

				NAM LAM APAC EMEA
	<i>Results regional EM: functional targets</i>	<i>Results of regional EM for NAM/ LAM/ APAC/ EMEA: functional targets</i>	<i>Possible global EM: functional targets</i>	<i>Results for optimized global product)</i>
Make and receive calls	3 band, 850/1800/ 1900 mHz , RF perfor.		Basic, 2 band	tbd.
Appeal to user	Simple, matt haptics, slider pref.		Thickness: <19mm; valuable appeal	tbd.
Support imaging	No camera		External camera	tbd.
Support music	MP3 decoding for ring tones		basic	tbd.
Provide gaming	Standard 2 D gaming		basic	tbd.
Provide outdoor/leisure features	none		none	tbd.
Enable messaging	basic		basic	tbd.
Support PIM/business applications	P. e. phoneb, b. orga, SMS MMS, PoC		MMS receive and forward; sync.	tbd.
Offer additional services	none		none	tbd.
Provide visualization	> 120x160 (132x176) display (<i>Performance</i>)		130x130, 64k (<i>very basic!</i>)	tbd.
Store data	4 MB		basic	tbd.
Provide usage and standby time	MP3 daytime 2h, standby 300h		Standby 250h	tbd.

Documentation of discussed alternatives

9

Within the definition of the overall target values for one product discrepancies between end-user and operator or regional target values have to be discussed and documented

	<i>Basic scenario target values</i>	<i>A1: Operator target values</i>	<i>A2: End-user target values</i>	<i>A3: region xy target values</i>
Make and receive calls	Voice centric, volume adjustments			
Appeal to user	Bar phone, robust, quality			No bar phone
Support imaging	No camera	VGA		VGA
Support music	40 poly			
Provide gaming	basic			
Provide outdoor/leisure features	Water resistance			
Enable messaging	basic			
Support PIM/business applications	basic			
Offer additional services				
Provide visualization	Comprehensive size, high brilliance		Bigger display	Bigger display
Store data	basic			
Provide usage and standby time				
Interaction with other devices				
Consumer personalization/operator customization				

Translation of the EM goals into precise maxims for all TC-tools

The defined templates that are used in the Enthusiasm Model process are documenting the final results.

Window of Opportunity

Pro-position

- Why are we making this product:
Position top 3 selling A-Class phone for Christmas business 2005

Target market (retail-user and operator)

- End-user (sub-)segment: A, subsegment A2
- Regional market focus: w% EMEA, x%NAM, y%LAM, z%APAC
- Sales channel split: Operator x% vs. retail y%
- Key operators addressed: ABC
- Main reference / competitor products: S55 / product A, B, C

Target positioning in portfolio

- Story / technical successor to: ME 45 / ME 45
- Price Point: Launch at abc € falling to def € (EOL)
- Launch date / Lifecycle: mm.yy / 12 months
- Addressable Market: x Mio. units in the markets
- Planned volume / market share: 1.5 Mio. Units
- Target Profit: xyz %, approximately xyz Mio. €

Product idea

- Product idea: "... (slogan)
- Key theme:
- Use cases / special characteristics: A) ..., B) ..., C) ...
- Dedicated innovation:

Enthusiasm Model

Required air interface: <input checked="" type="checkbox"/> GSM <input checked="" type="checkbox"/> GPRS <input type="checkbox"/> EDGE <input type="checkbox"/> UMTS <input checked="" type="checkbox"/> WLAN <input type="checkbox"/> VoIP <small>(SIP)</small> other: "..."									
Preferred form factor: <input type="checkbox"/> Bar <input type="checkbox"/> Slider <input checked="" type="checkbox"/> Clam <input checked="" type="checkbox"/> New/ others: "... e.g. swivel-clam"									
Support/ provide ...	End-user requirements				MNO requirements				Target values (value range)
	not req.	Basic	Perf.	Enth.	not req.	Basic	Perf.	Enth.	
Quality of basic functions (IQ-keypad & voice / UI / RF)									Easy to use keypad; 7 days standby, ...
Usage/ standby time									20 pictures with flash, 300h standby
Design/ Material/ Form factor									surprising new form factor
Visualization (display/ lighting)									QVGA, min. 256k colours
Imaging/ Video									Optical zoom, 3.2 Mpix, auto focus, strobe flash
Music/Audio									Video with audio recording
Gaming									Basic
Outdoor (robustness/location)									Not required
Messaging/Presence/ PoC									Basic (SMS, MMS, no PoC)
Business/ PIM/ Sync									Standard Sync-Solution
Interaction with other devices									11.0h, Bluetooth, picture bridge (TV out missing)
Data storage									MMC card/ TF-R card
Consumer personalization/ Operator customization									20 pictures + 15 min video + standard addressbook, MMC Card holder
									no MCL adaptation
Possible risks ■ Risks according to competitive positioning, consumer/ operator acceptance, technical feasibility and financial/ profitability									

Region-/ end-user/ operator specific Alternatives

Support/ provide	Basic Scenario Target values	A1: Operator Target values	A2: Operator Target values	A2: Operator Target values
Quality of basic functions (IQ-keypad & voice / UI / RF)				
• Usage/ standby time	Voice centric / volume adjustment			
• Design / Material / Formfactor	Bar, robust quality			No bar phone
• Visualization (display/ lighting)	Comprehensive size, high brilliance		Bigger display (120x160)	Bigger display (120x160)
• Imaging/ Video	No camera	VGA		VGA
• Music / Auto	As Pegasus 40 chords polyph			
• Gaming	Basic as A 60			
• Outdoor (robustness/ location)	Only Basic, water resistant, l.b.d.			
• Messaging/ Presence/ PoC	Basic sync.			
• Business / PIM / Sync	Only Basic			
• Interaction with other devices				
• Data storage	Only Basic			
• Consumer personalization/ operator customization	Only Basic			

Reverse
Calculation

Product Target Splitting

Alternatives
Generation

Alternatives
Evaluation

Product Target Splitting

Concept Freeze

Target Controlling