



Product-market fit – validation playbook

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Intro

We created this product-market fit e-book to help entrepreneurs, innovation leaders, marketers, and product managers get a holistic view of how to decrease the risks of failures with a new business, product, or service launch.

We have collected an overview of key methods you can use to test and validate your ideas, product prototypes, and business model before making any main investments or going public.

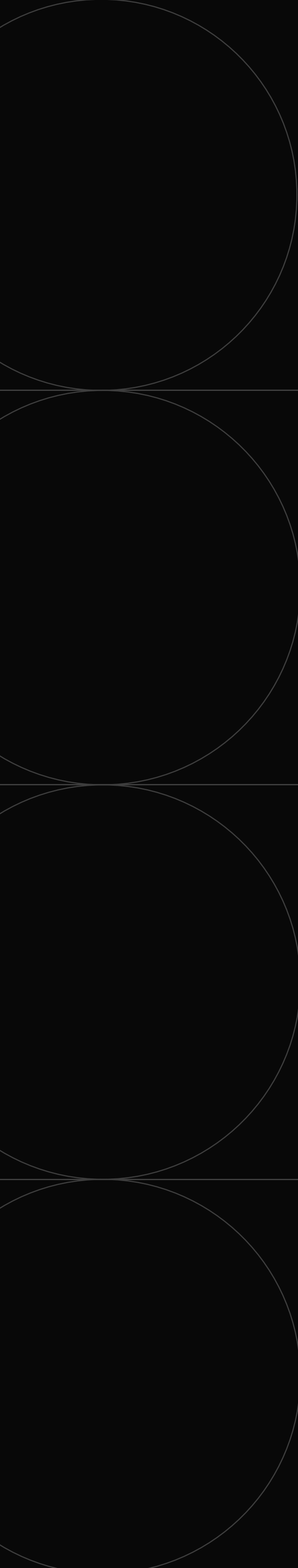
These recommendations can help you save and earn tons of money, preventing releasing products that don't have a good product-market fit, smooth customer experience, or a right business model.

Craft Innovations team



Validation process

and why validation matters



Why validation matters?

According to research from CB Insights, the number one cause of startup failures in recent years – almost 40% – is “no market need.” Others are running out of cash, cost/price issues, wrong team, bad UX, time-to-market. At the very beginning, no team expects to be among those failures, but for one of the above reasons, they are. That’s why we need validation.

“No market need” —
is the number one cause of startup failures — almost 40%

Of course, validation results do not guarantee that your idea, project, or business will definitely be successful. The final result depends on market conditions, execution excellence, timing, and many other factors.

But validation results help to prevent mistakes caused by biased thinking, unquantified hypotheses, and overconfidence.

In this e-book, we will focus on three groups of questions that every new venture should consider before making major investments: These groups include product, problem and profit.

Problem

- Does my idea solve customer needs?
- How real and intensive is the need?
- Are customers willing to pay for this solution?

Product

- Is my product design intuitive?
- Does it help customers achieve their goals?
- What features are most desirable and add value?
- What performance criteria do users evaluate?

Profit

- How much are customers ready to pay?
- What is the market size?
- What will customer acquisition costs be?

Product validation process

A well-executed product validation process can help to ensure that the product is of high quality and that it meets the needs of its intended users. The product validation process typically includes several steps, which include:

01 — Coming up with test ideas

You can have plenty ideas. If you have lots of ideas, you can get help choosing the right one to test via [Assumption Matrix](#) →

02 — Converting your idea into a hypothesis statement

A properly formulated [Hypothesis Statement](#) → is a very important ingredient in the validation process period.

03 — Defining the audience

To get relevant feedback you need to study the right audience. Behavioural patterns, psychographic and demographic criteria, etc.

04 — Defining the expected outcome

It could be customer behaviour insights, usability score, feature priority lists or more.

05 — Choose a validation method

This may include in-depth interviews, ethnographic research, usability testing, price sensitivity.

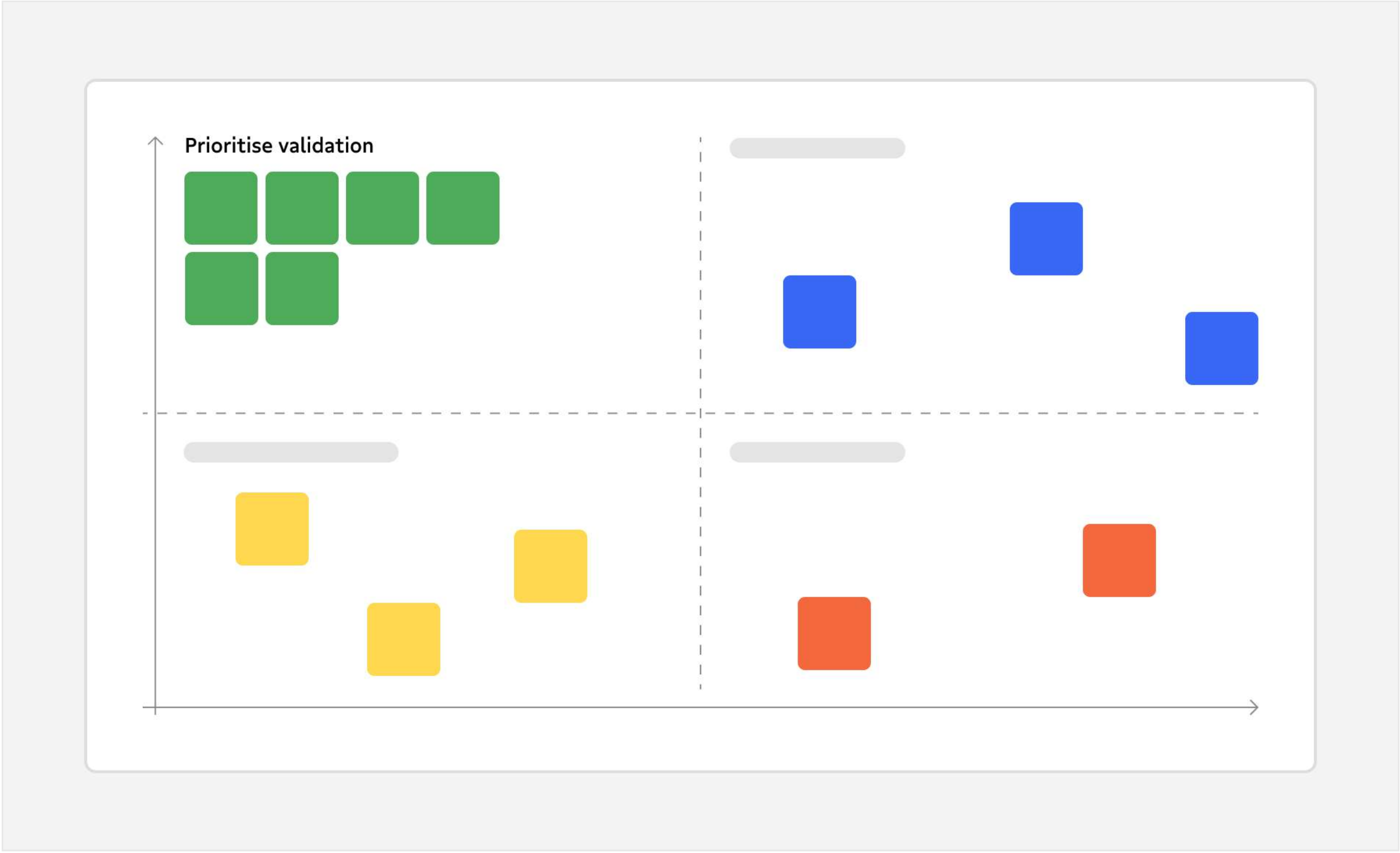
06 — Testing

This incorporates activities such as the recruitment of respondents, low or high-fidelity product prototype development, questionnaire design, running ads, UX tests.

07 — Evaluation of results and taking decisions

You are ready to take data-driven decisions about whether it's worth investing further in your idea.

Assumption matrix

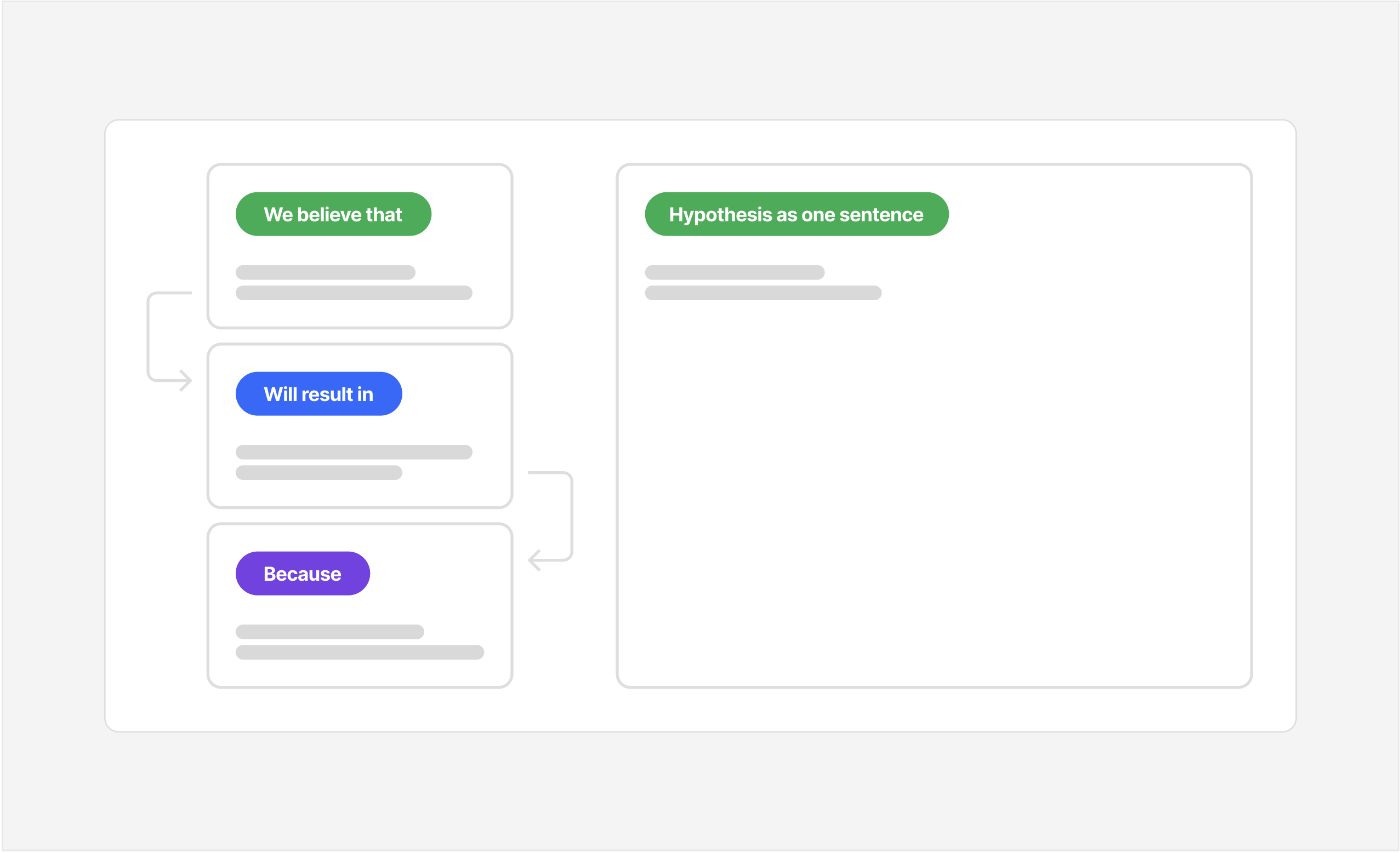


Prioritising assumptions for testing can ensure that the most critical assumptions are validated first, which can help to minimise risks and ensure that the product or process is functional and fit for its intended purpose. By focusing on the most important assumptions, you can allocate resources more effectively and avoid wasting time and money on unnecessary tests.

Find this template at our library:

 [Assumption Matrix — Figma template](#) 

Hypothesis statement framework



Having a clear and well-defined hypothesis is crucial when creating a successful product. A hypothesis statement sets the direction for your product development and helps you stay focused on your goals. In addition, it acts as a roadmap for your team, providing a clear understanding of the problem you're trying to solve and the expected outcome.

Find this template at our library:

 [Hypothesis Statement — Figma template](#) 

Problem validation

Is there a real problem?

Problem validation

Does anybody have the problem that you are trying to address?

There are four indicators that a product is desirable:

- 01 — There is a need with a high level of pain that isn't being fulfilled.
- 02 — Existing solutions offer poor user experience.
- 03 — It offers significant benefits over existing products.
- 04 — There is a low cost/effort needed for adoption of the new product into a customer's life.

To find out if your product is needed, you should ask your target audience about it — but not directly, of course. You have to choose the right questions and methods to check if these indicators apply to your product while gathering other actionable insights.

Our goal at this stage is to understand your customers' behavioural patterns; how they make decisions; what solutions they use to accomplish their goals and which performance, price and emotional criteria customers use when deciding what product to choose – what open needs and pains they have.

Problem validation methods

Methods	Complexity	Value
Desk research		
Jobs-to-be-done interviews		
Ethnographic research		
Concept Testing		
Smoke test		
KANO Model		

Desk research

What

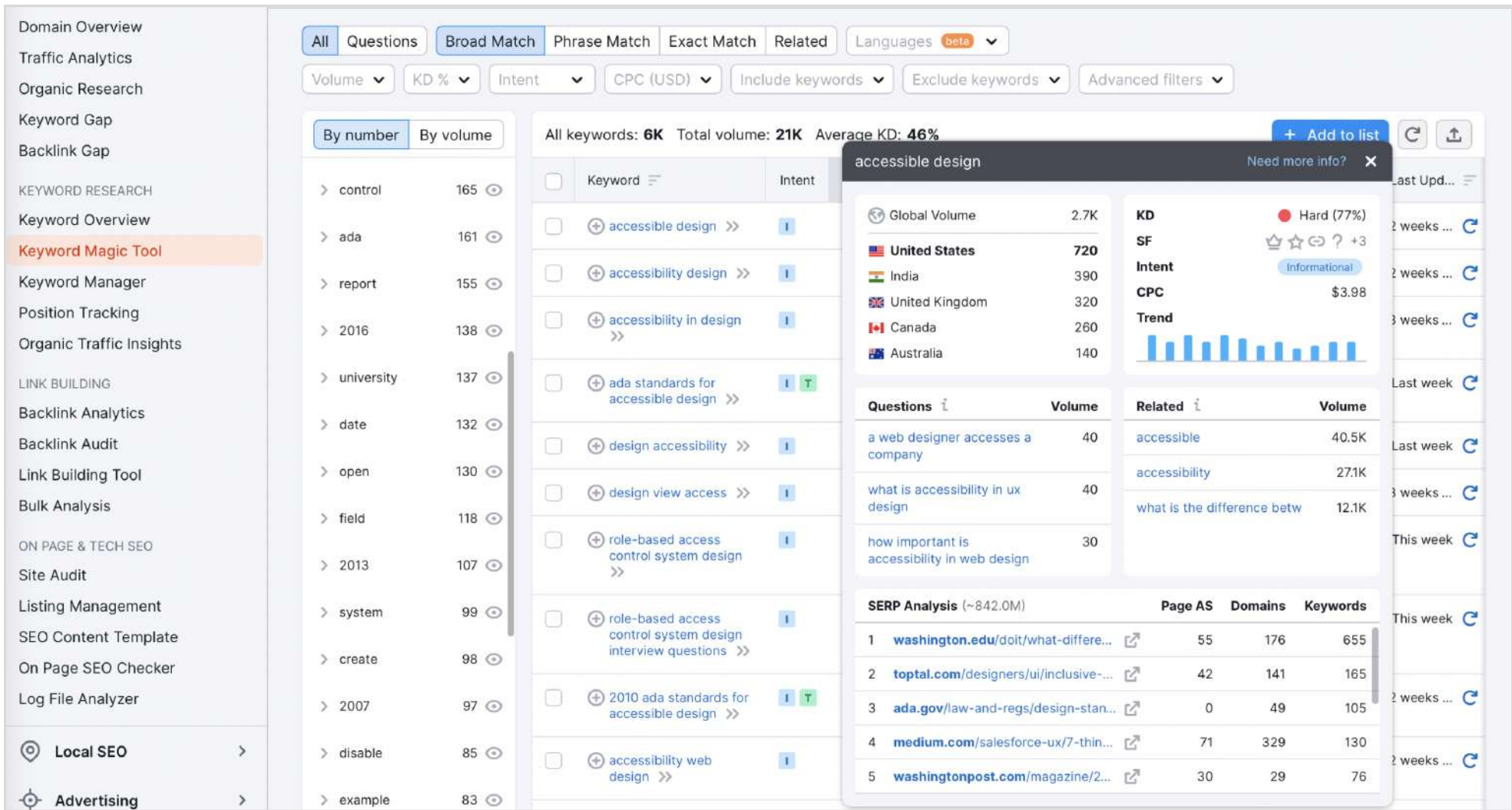
Desk research involves gathering information about potential demand, market size, and customer pain points, commonly from digital sources of information.

Format

Internet search in free and paid data sources. You can use keyword search analytics to understand what and how often people are searching topics related to your idea, collect feedback from products reviews on e-commerce platforms, forums, or social media threads, and use platforms like Quora to see what people are looking for and what others recommend them.

Why

It is a quick and reliable method to get first quantified data about initial demand and issues with existing experience.



Activity of the keyword analysis

Result and deliverables

- Quantified data about potential demand and markets.
- List of hypotheses to test via in-depth interviews or ethnographic research.
- List of insights about customer experience with existing market solutions.
- Based on this data, you can make the first prediction about your market size and how your product hypothesis fits demand.

Tips and CI recommendations

- Use paid services for keyword analytics, like semrush, ahrefs, similarweb.
- Create a semantic core to make your search focused.
- Structure all data. It will help you with further analytics.

In-depth interviews

What

An in-depth interview is a research method used to understand consumers' underlying needs, pain points, decision making criteria, motivations. This type of interview aims to validate customers stimulus for hiring of new product or service, as well as uncover issues with existing customer experience.

Format

One-on-one interview, online (zoom/meet) or offline. You need to find the representatives of your target audience (6–12 per one TA group) and ask them questions related to your research goals.

Why

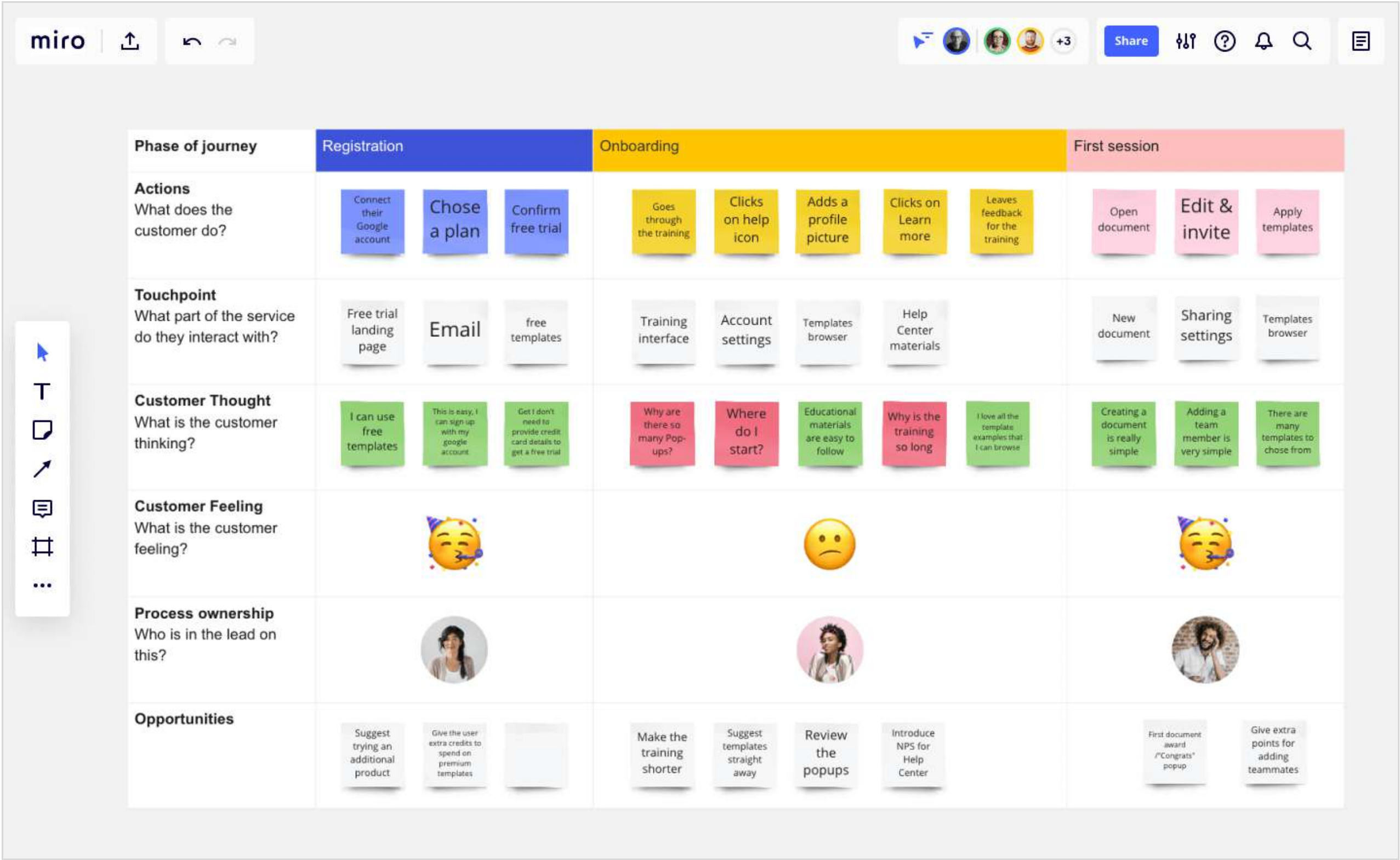
It is one of the best methods to understand your user's way of thinking, decision-making, and underlying needs.

Result and deliverables

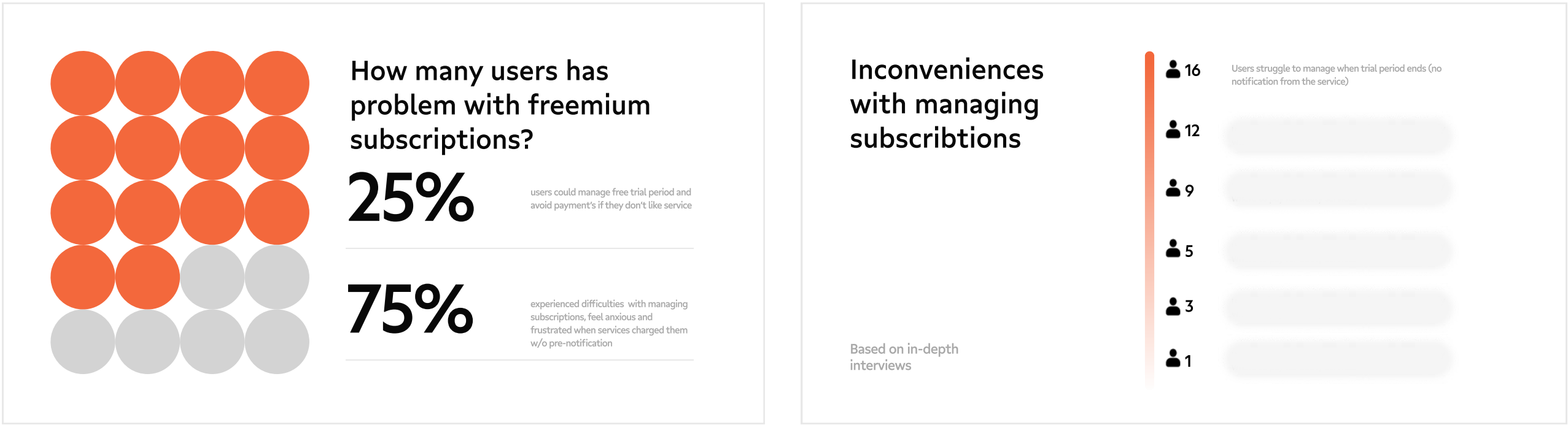
- List of insights
- Customer persona profile
- Customer journey map
- In the end, you can evaluate how close your idea is to the market need; competitors' landscape and barriers and opportunities for new product adoption from the customer side. You can also usually get a lot of new ideas for initial product concept improvements.

Tips and CI recommendations

- Don't pitch your idea; focus on the existing behavior and needs.
- Ask "why?" as much as possible. It will help you dive into hidden underlying motivations.
- Ask about present or past experiences, it helps when getting necessary details and facts free from assumption and future guessing.



Customer insights mapped into Customer Journey Map



Sample of the Report summarising findings

Ethnographic research

What

Ethnographic research is a qualitative research method that involves observing and interacting with people in their natural environments to understand their behaviors, attitudes, and cultural practices.

Format

Observation plus a contextual interview about the points of future customers' interaction with the existing market solutions you want to disrupt.

Why

Ethnographic research is particularly useful as a part of the idea validation process because it allows researchers to gain a deep understanding of the context in which a product or service will be used. By observing and interacting with consumers in their natural environments, researchers can gain insights into the challenges and opportunities that consumers face, and how a new product or service might fit into their lives.

Result and deliverables

- List of insights about customers' behavior in the natural environment
- Photo and video content – a visual documentation of the environment and behaviours observed during the research.
- Narrative reports – description of user behavior

As a result, you will have a clear picture of real-world behaviour, potential customers' pains, and how your new product fits or changes it.



Screenshot from video, filmed to observe user interaction while purchasing tickets

Tips and CI recommendations

- Selecting the right participants is crucial for ethnographic research. Look for participants who are representative of the target group and who are willing to share their experiences and insights.
- Observe and interact: ethnographic research involves both observation and interaction with participants. Be mindful of your presence and try to blend in as much as possible, but also be open to engaging with participants and asking questions.
- Record and document thoroughly: ethnographic research generates a lot of data, so it is important to record and document everything as thoroughly as possible.

Concept testing

What

Concept testing involves gathering data about the potential performance or effectiveness of a product concept in order to assess its potential for success.

Format

Concept testing typically involves presenting a product concept or idea to a group of potential customers or target market members and collecting data about their reactions and feedback. This can be done through methods such as surveys, focus groups, or one-on-one interviews (if the TA is difficult to access).

Why

By gathering data about the perceived value, appeal, and fit of a product concept, you can better understand whether the product concept (or actual product) can meet your target market's needs or desires and drive the desired behavior (e.g., making a purchase). Concept testing can also help identify any issues or areas for improvement in the product concept, which can inform further development or refinement of the product idea.

Result and deliverables

- Systematic and unbiased with a high level of objectivity data
- Metrics or measures which might be used to assess the success or effectiveness of a product or process. There are a lot of different ones, but generally, they are related to the following:

Attention: Percentage of potential customers who say that the product concept (or actual product) attracts their attention.

Interest: Percentage of potential customers who express interest in the product concept after learning about it.

Willingness to purchase: Percentage of potential customers who say they would be willing to purchase the product at a given price point.

Perceived value: Potential customers' perceptions of the value of the product concept compared to its price.

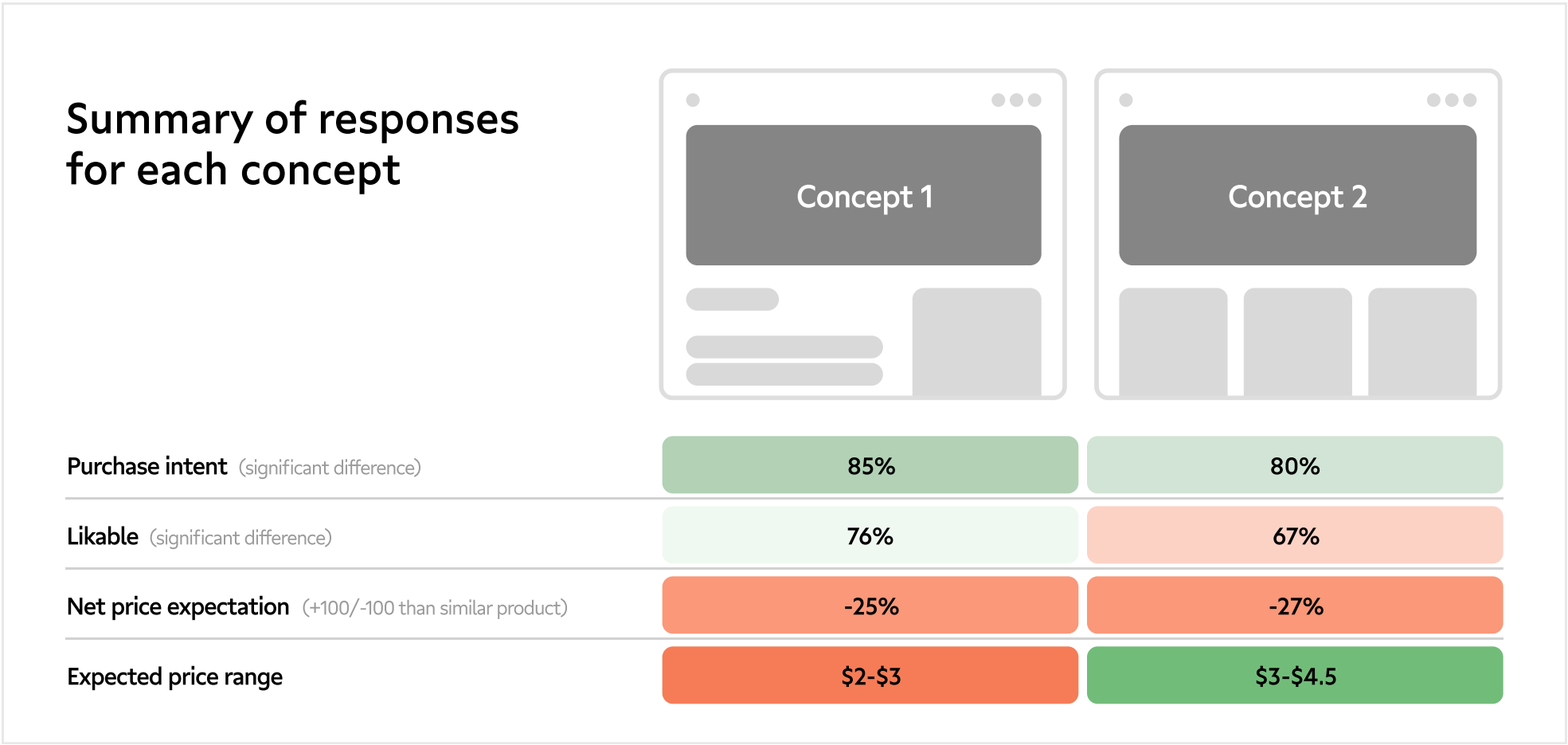
Perceived fit: Potential customers' perceptions of how well the product concept meets their needs or fits into their lifestyle.

Likeability: Potential customers' overall feelings of positive or negative affinity for the product concept.

Recommendation: Percentage of potential customers who say they would recommend the product concept to others or share their experiences.

Sales projections: Estimates of the potential sales volume or revenue that the product concept might generate.

Based on the results of the concept test, the deliverables might include recommendations for how to improve the product concept or how to move forward with the idea.



Principle of the quantitative concept testing

Tips and CI recommendations

- Select participants who are representative of your target market and who are likely to be interested in the product concept. This will help ensure that the results of the test are meaningful and relevant.
- Use a sufficient sample size in order to gather reliable data.
- Pay maximum attention to the product concept or its prototype. Ensure that the concept (idea) that will be tested is as close as possible to what you are working on.
- Carefully analyze and interpret the data collected through the concept test, and consider seeking the help of experts if necessary. Use the results to inform further development or refinement of the product concept.

Smoke-test

What

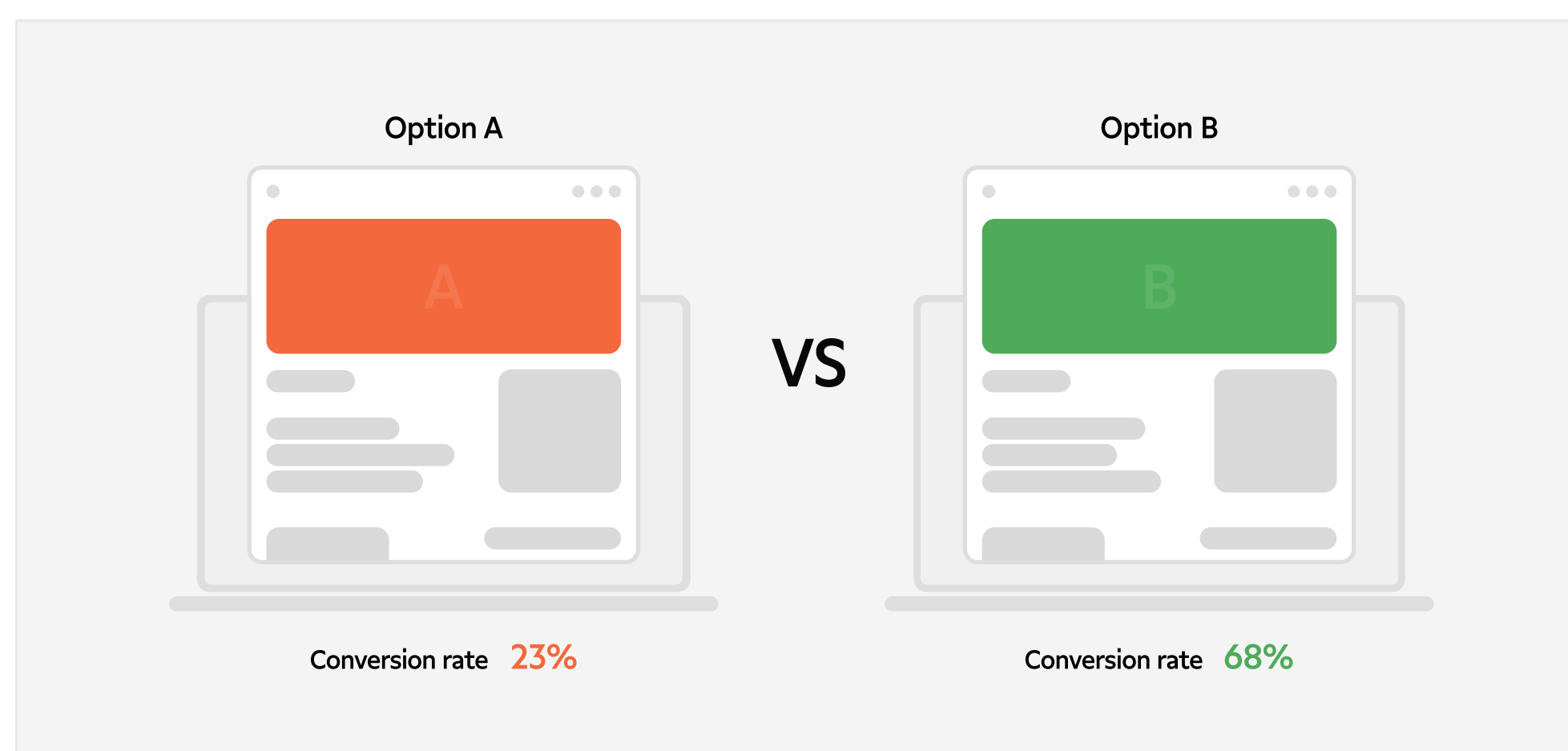
A smoke test aims to gauge the level of interest in the product idea and identify any potential issues or concerns that may need to be addressed before proceeding with development.

Format

This involves creating a virtual product representation and showcasing it to potential customers. It could be a landing page or product pages in social media, a physical product prototype, or printed materials. We aim to "sell it" like it is a real product, generating traffic to our resources and collecting information about conversion rates. Call-to-action buttons could be "know more," "pre-order," "subscribe to product update".

Why

This way, we can get close to real-life data about the market's interest in the new product, as well as the test price assumption and customer acquisition cost (CAC).



Principle of the smoke-test

Result and deliverables

- Market demand assessment
- Customer aquisition cost and selling price
- E-mail database for future promotion

The cons of this method are that your idea should already have a tangible (physical or digital prototype) you can showcase to the public to make sure people make conscious decisions and actions by clicking on your ad, as well as have other “brand attributes” to build trust. If you are in the early concept stage, starting with the methods listed above is better.

Tips and CI recomendations

- You can use a vitrual brand-name to derisk the consequences of getting negative PR.
- You can use website-building services like WIX or Weblium to speed up the process.
- Don't forget to connect analytics to the website, to understand your audience.

KANO model

What

The Kano model is a framework for understanding customer satisfaction with a product or service. It is often used in product development and marketing to help identify the features that will most satisfy customers.

Format

The Kano model typically involves gathering data about customer preferences for different product features through surveys or one-to-one interviews.

To discover users' preferences, the Kano Model survey presents each respondent with a pair of functional and dysfunctional perception questions. A functional one asks how the respondent feels when the feature is offered, whereas a dysfunctional question asks about the feeling when the feature is excluded.

Why

It is a fast and reliable method to get a an effective, statistically confirmed decision. If you already have an actual product and want to develop it, the Kano method allows you to make a decision about which ideas are worth implementing and which should be rejected. It can help with prioritizing features, allocating resources during the development process, and guiding marketing efforts by identifying the features most likely to appeal to customers. The Kano model is also helpful in identifying opportunities to differentiate your product from competitors by offering unique or unexpected features that delight customers.

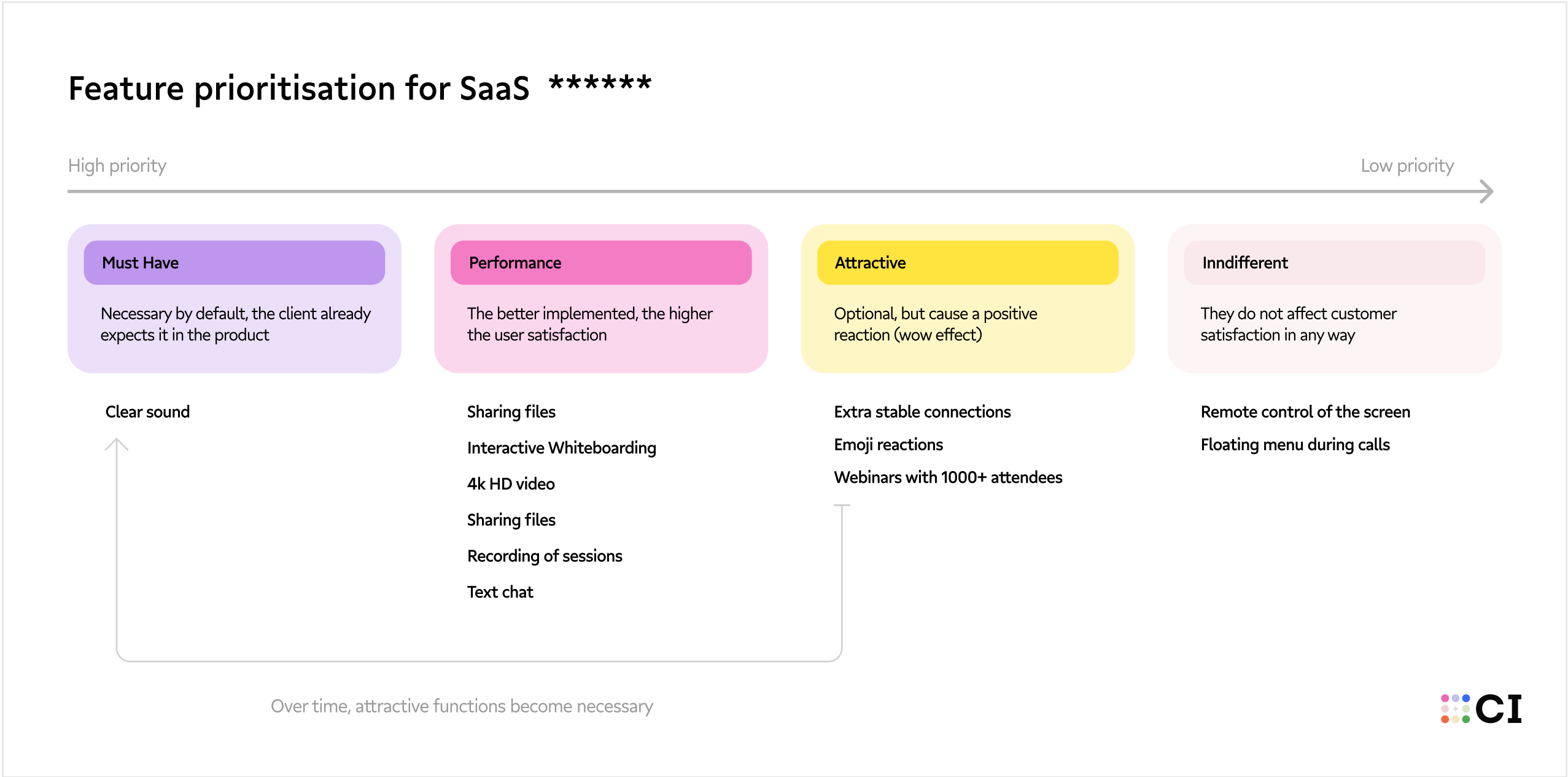
Result and deliverables

List of categorized features according to their attractiveness to users:

- **Basic "must-have" features:** These are features that customers expect to be present in a product. If they are not present, the product will be perceived as subpar or incomplete.
- **Performance "one-dimensional" features:** These are features that customers appreciate, but do not necessarily expect. The more of these features a product has, the better it is perceived by the customer.
- **Delighters "attractive" features:** These are features that customers do not expect, but are pleasantly surprised by when they are present. These features can significantly increase customer satisfaction and loyalty.
- **A Kano chart** — a graphical representation of the relationship between the importance and satisfaction level of each product feature, as rated by customers. The chart can help you identify which features are most important to customers and how they contribute to satisfaction.
- **A understanding** of which features you need to acquire customers (attractive ones) and which ones to retain customers (must-haves)

Feature	Category 1	Category 2	Must-have	Performance	Attractive	Indifferent	Reverse	Questionable
interactive whiteboarding	Attractive	Indifferent	1.7%	6.9%	31.0%	29.3%	12.1%	19.0%
4K HD video	Attractive	Indifferent	1.9%	13.0%	37.0%	27.8%	1.9%	18.5%
emoji reactions	Attractive	N/A	2.0%	10.2%	38.8%	28.6%	6.1%	14.3%
recording of sessions	Attractive	Indifferent	6.8%	15.9%	27.3%	25.0%	6.8%	18.2%
drawing during screensharing	Attractive	N/A	7.3%	3.6%	38.2%	25.5%	1.8%	23.6%
text chat	Attractive	Questionable	14.0%	18.0%	26.0%	16.0%	6.0%	20.0%
remote control of screen	Indifferent	N/A	4.0%	14.0%	24.0%	34.0%	4.0%	20.0%
attendees' permission management	Indifferent	N/A	9.8%	7.8%	19.6%	37.3%	3.9%	21.6%
sharing files	Attractive	Performance	7.9%	21.1%	23.7%	21.1%	7.9%	18.4%
extra-stable connection	Attractive	N/A	5.4%	21.4%	44.6%	8.9%	3.6%	16.1%
clear sound	Performance	Attractive	16.0%	28.0%	24.0%	8.0%	4.0%	20.0%
integration with Outlook	Indifferent	Questionable	4.3%	10.9%	21.7%	28.3%	8.7%	26.1%
integration with Gmail	Indifferent	Attractive	2.1%	2.1%	27.7%	31.9%	14.9%	21.3%
floating menu during calls	Indifferent	N/A	8.7%	2.2%	23.9%	41.3%	6.5%	17.4%
webinars with up to 1000 attendees	Attractive	Indifferent	5.8%	5.8%	32.7%	32.7%	7.7%	15.4%

Discrete Analysis, image source www.conjointly.com



Example of the report representing feature prioretisation prioritisation

Tips and CI recommendations

- Make a list of the product features that you want to include in the study and ensure that they are clearly defined. This will make it easier for customers to understand what you are asking about and provide more accurate responses.
- Use clear and concise language to avoid confusion or misunderstandings. Avoid technical jargon or complex language that may be difficult for some customers to understand.
- Test the survey before launching it: Before you launch the survey, it's a good idea to workshop it with a small group of people to ensure that the questions are clear and the survey is easy to complete. This can help you identify any issues or ambiguities that need to be addressed before launching the survey to a wider audience.
- Be careful with sample design. Use a sufficient and representative sample size in order to gather reliable data.

Product validation

Is the product designed right?

Product validation

Is the product designed the right way so people can use it easily?
Bad user experience can have many negative impacts:

01 — Low user satisfaction

Poorly designed products result in a frustrating user experience, leading to decreased satisfaction and a lack of trust in the company.

02 — Decreased usage and retention

If customers do not enjoy using a product, they are less likely to continue using it over time.

03 — Decreased sales and revenue

Poor UX can lead to decreased usage and retention, which can ultimately lead to decreased sales and revenue for the product.

04 — Negative brand reputation

Bad UX negatively impacts a brand's reputation. If users have negative experiences with a product, they may be less likely to purchase in the future or to recommend the brand to others.

05 — Increased customer support costs

Poorly designed products result in an increased number of customer support inquiries.

06 — Increased churn rate

Overall costs of fixing UX mistakes for finished products are much higher than in pre-development and pre-launch UX tests. That is why we recommend to validate Product and its UX early.

Product validation methods

Methods	Complexity	Value
5-second test		
Guerrilla test		
Unmoderated usability test		
Moderated usability test		
Eye-tracking test		
Accessibility evaluation		

Choosing the right method depending on the product stage

Lo-fi prototype	Hi-fi Prototype	Live version
✓ 5-second test ✓ Guerrilla test ✓ Unmoderated usability test	✓ 5-second test ✓ Guerrilla test ✓ Unmoderated usability test ✓ Moderated usability test ✓ Eye-tracking test	✓ 5-second test ✓ Guerrilla test ✓ Unmoderated usability test ✓ Moderated usability test ✓ Eye-tracking test ✓ Accessibility

CI recommendation — test early and often

Early and frequent testing is crucial for validating product-market fit. It helps identify and address potential issues, fine-tune design based on user feedback, and ensure the product meets target market needs and expectations. Testing leads to a successful product-market fit.

5-second test

What

The 5-second test is a usability testing method that involves showing a user an image or design for 5 seconds and then asking them questions about what they remember seeing. The 5-second test is typically used to assess the effectiveness of a design in communicating key messages or information to users.

Format

To conduct a 5-second test, a researcher will show a user an image or design for 5-seconds and then ask them questions about what they remember seeing. The questions may include open-ended prompts, such as "What did you see in the image?" or "What is the main message of the design?" as well as specific questions about specific design elements.

Why

The aim of the interface is to quickly capture the user's attention by providing information and guiding them towards their desired outcome with each interaction. The 5-second test can be a valuable tool for identifying issues with the clarity of a design.

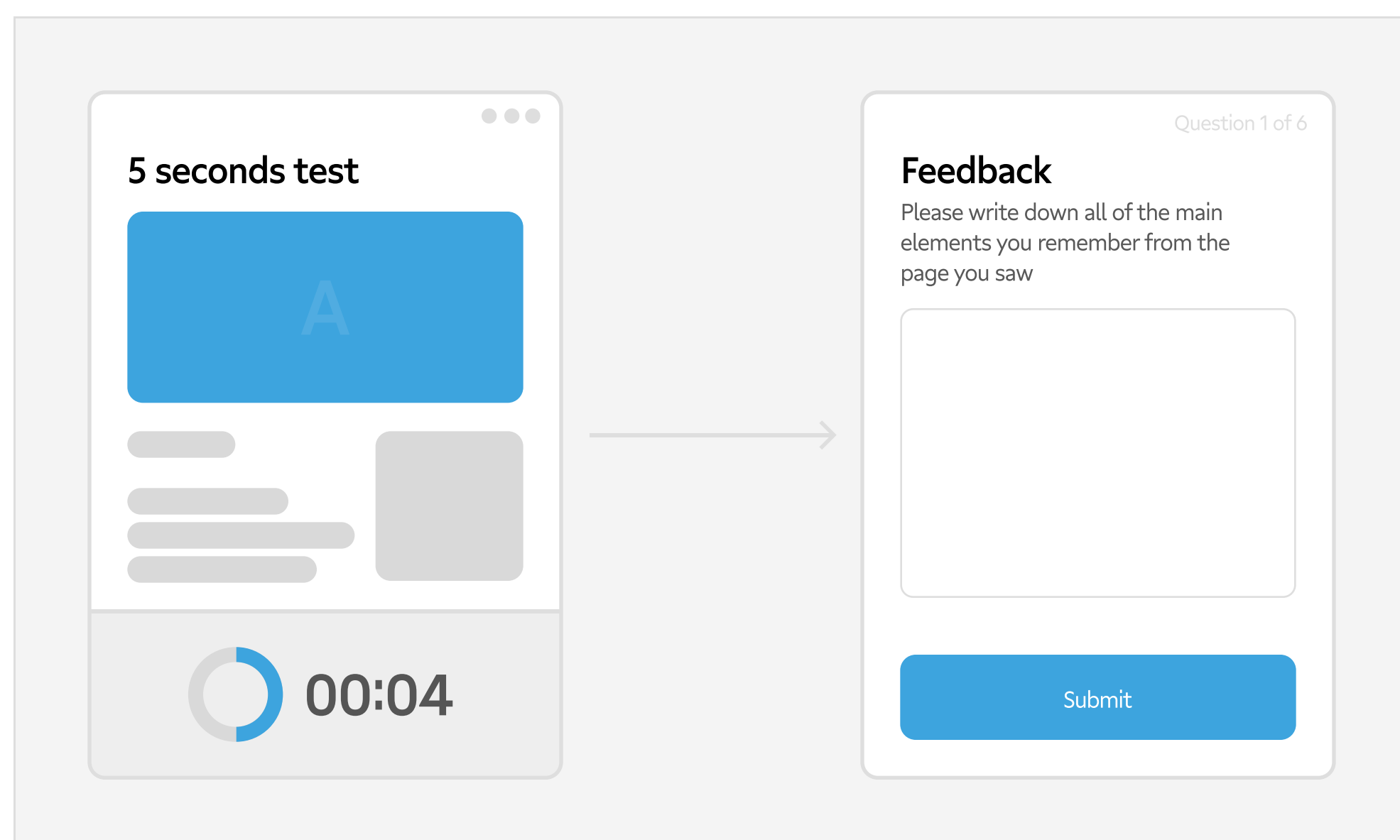
By measuring what users remember seeing after a brief exposure, the test can help designers understand how effectively their designs communicate key messages or information.

Result and deliverables

- Associations and understanding from customers
- Customer quotes and feedback
- Validation of design and messaging

Tips and CI recommendations

- Be clear about what you want to assess, and ask for feedback accordingly.
- Respondents should represent your key TA



Principle of the 5 second test

Guerrilla test

What

Guerrilla testing is a method of user testing that involves quickly and informally gathering feedback on a product or prototype from a small group of users in a natural environment. It is called "guerrilla testing" because it is typically done quickly and on the fly, without the need for extensive planning or resources. Often used early in the product development process, and can be an effective way to validate assumptions about how users will interact with a product, and to identify any potential issues or areas for improvement.

Format

To conduct a guerrilla test, a researcher typically approaches a small group of users in a public place, such as a coffee shop, shopping mall, or park, and asks them to interact with prototype. The researcher observes the user's interactions with the product and asks for feedback on their experience.

Why

Guerrilla testing is one of the cheapest and fast ways to get first independent feedback on a UX logic you are working on (low fidelity prototyping). It helps identify potential issues or to uncover new ideas.

Result and deliverables

- Observation notes
- Customer quotes and feedback
- Validation of design and messaging

Tips and CI recommendations

- Be clear about what you want to measure, and ask questions accordingly.
- Respondents should represent your key TA
- Test environment shouldn't distract people



Photo of the person looking into the prototypes of the product

Unmoderated usability test

What

Unmoderated usability tests refer to a type of research method in which participants are asked to complete a set of tasks on a website or application without the presence of a moderator. These tests are typically conducted online, using tools such as screen recording software or online survey platforms.

Format

To conduct an unmoderated usability test, you need to:

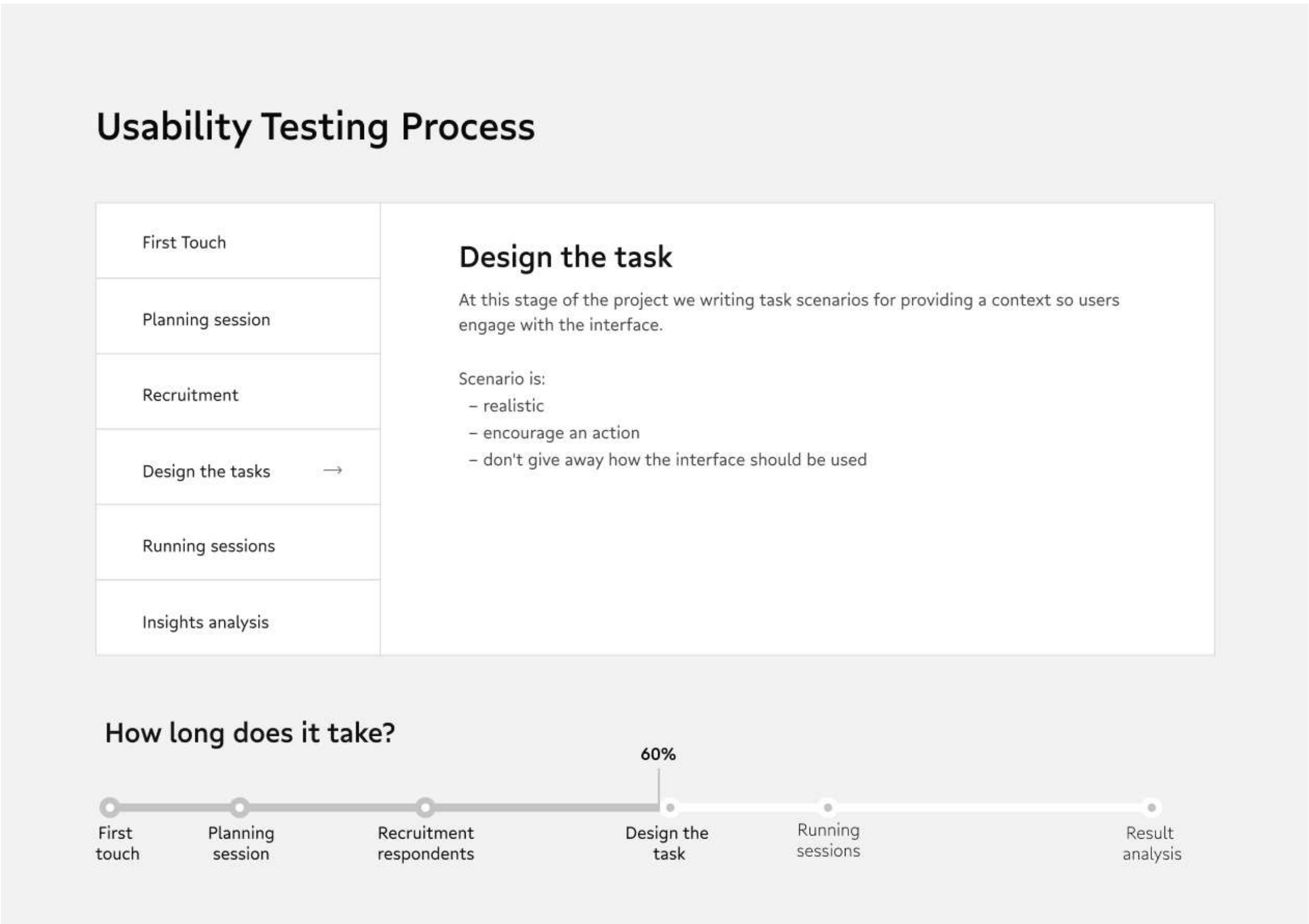
- 01 — Develop a set of tasks for participants to complete, such as navigating to a specific page on a website or finding a particular piece of information.
- 02 — Create a test script, which includes instructions for participants on how to complete the tasks and any follow-up questions or surveys that you want to include.
- 03 — Recruit participants for the study, either through a panel or through your own efforts.
- 04 — Provide participants with a link to the test script and any necessary login information or software.

- 05 — Collect data from the participants, including screen recordings of their interactions with the website or application, their responses to any follow-up questions or surveys, and any feedback they provide.

One limitation of unmoderated usability testing is that the absence of a moderator makes it harder to understand the reasoning behind a user's behavior and decisions, which can be critical when it comes to understanding the feedback and fixing problems.

Why

Unmoderated usability tests are best employed when you want to test a website or application prototype with a large number of participants, or when you need to conduct the test quickly and at a low cost. They can also be useful when you want to test participants who are geographically dispersed.



Piece of wireframe of the craftinnovations.global website, which we tested early via unmoderated usability testing



Screenshots of the received results

Result and deliverables

- Recording of user sessions
- Qualitative and quantitative data about user interactions

Tips and CI recommendations

- Make sure that the task instructions are clear and easy to understand, and that they are relevant to the goals of the test.
- Use a tool that allows for remote testing, such as [Ustesting.com](https://www.usertesting.com) ↗, or [Lookback.com](https://lookback.com) ↗, so that participants can complete the test from their own devices and in their own environment.
- Encourage participants to think out loud as they complete the task, as this will provide valuable insights into thought processes and decision-making.

Moderated usability test

What

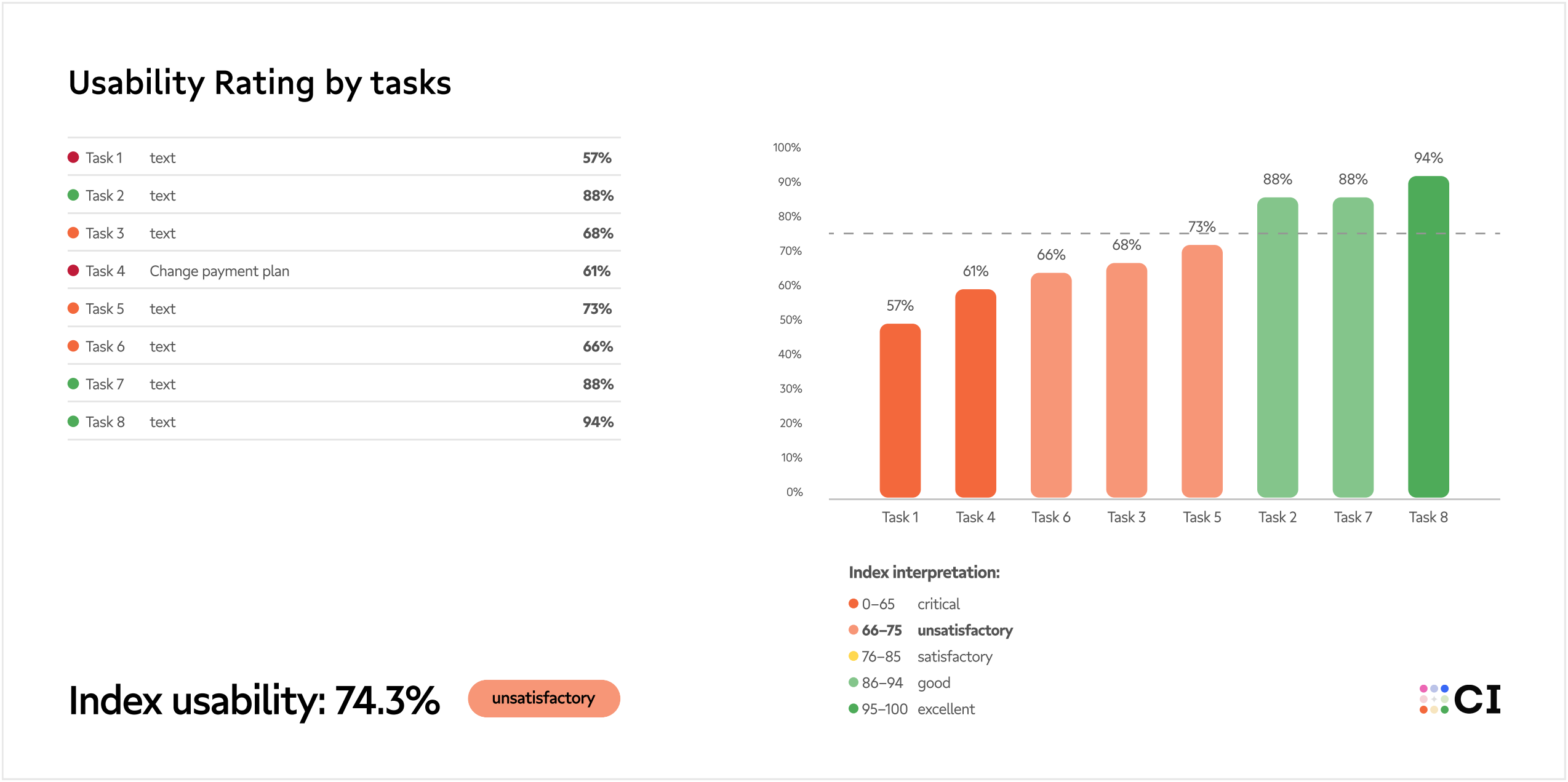
Moderated usability tests involve the presence of a researcher who observes and interacts with participants as they complete tasks that emulate real-life interactions or use a product. They are usually conducted on later product development stages, as part of high fidelity prototypes and available UI. These tests can be expensive but one of the most valuable test methods.

Format

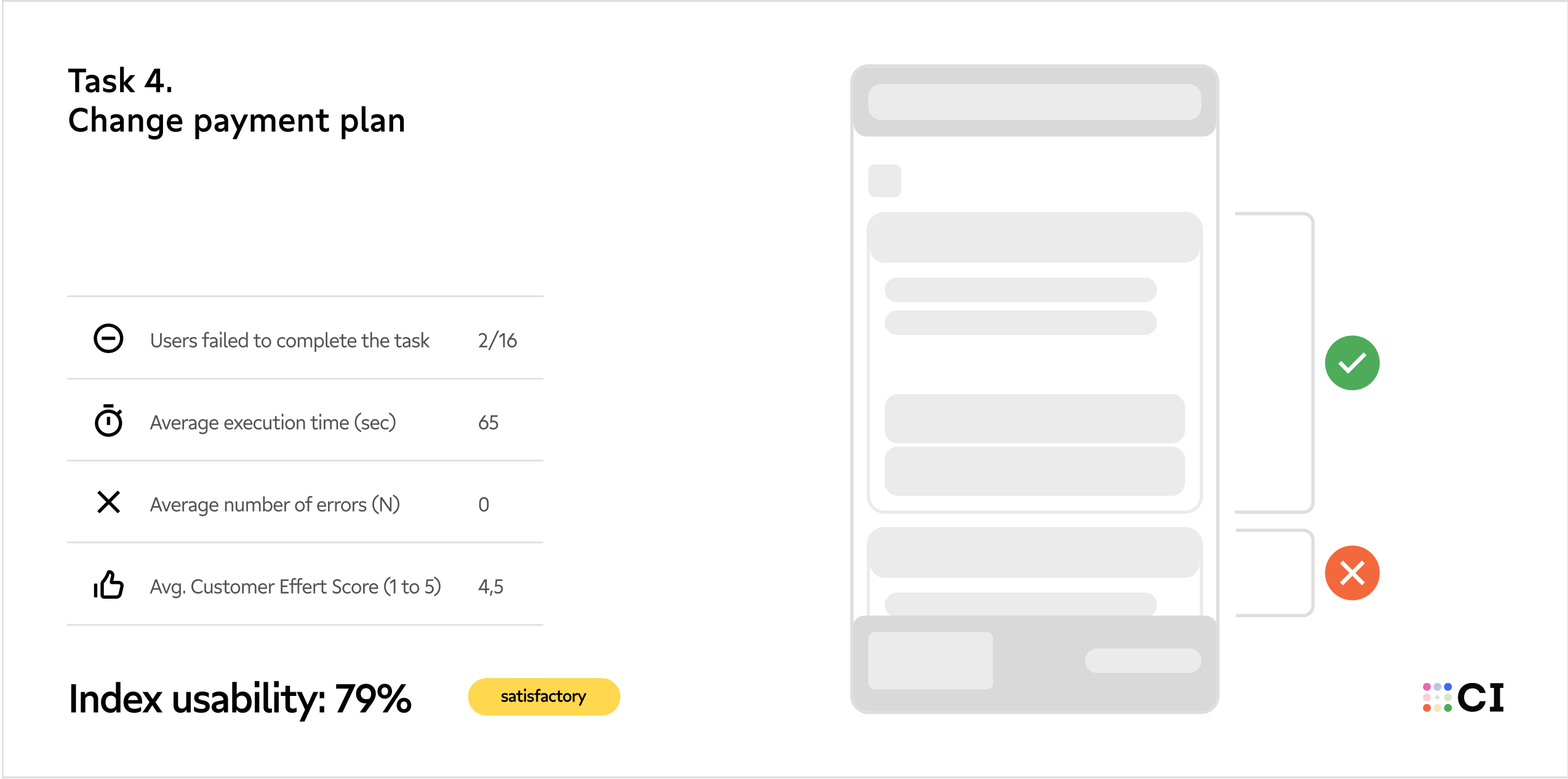
It can be conducted in person or remotely using video conferencing tools. The researcher asked participants to complete specific tasks while counting the completion time, number of errors, customer effort score, and overall feedback on the interaction.

Why

This method allows us to get deep, actionable insights and validate that the entire design meets the business and usability goals. Benefits come from the researcher's presence during the test, who can ask questions and probe for more information about the user's thoughts and behaviors during the interaction with a product prototype.



Example of the usability test report showing findings details



Example of the usability test report showing findings details

Result and deliverables

- List of actionable insights
- Single Usability Score (Metric)

Tips and CI recommendations

- The prototype must be clickable and allow the user to make mistakes (more interaction freedom than one scenario)
- The optimal task quantity per session is 8–12
- Quantify interactions (time of completion, number of mistakes per task, completion itself, etc.)

Eye-tracking usability test

What

Eye-tracking usability tests are one of the most sophisticated forms of testing, as they require special hardware and software that tracks a user's gaze as they interact with a product or service. Eye-tracking tests can provide profound insights into how users focus their attention and process information, while helping to identify hidden issues with the product design.

Format

Researcher ask the participant to complete specific tasks, counting the time of completion, the number of errors, customer effort score, and overall feedback on interaction. The recorded eye-tracking data is then analyzed to understand how the participant's gaze moves across the screen and to identify any areas of the product or interface that may be causing confusion or difficulty.

Why

Although eye-tracking is not the easiest method, thanks to its preciseness (tracking gaze with millisecond proximity), it can provide designers with data that couldn't be received in any other way.

This data shows how users focus attention, what unconscious blind spots are present, and how UI components work, making it possible to accurately tune your prototype.

Result and deliverables

- Deep insights into user perception of information
- Insights about hidden usability issues
- Heat maps and other quantified data about user interactions with the interface

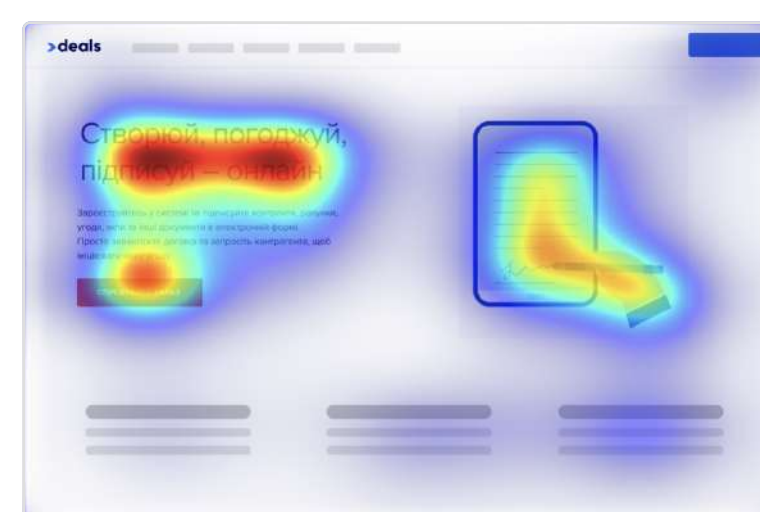


An user in process of testing app at UX laboratory using eye-tracking device
Image source www.tobii.com

Eye-tracking Analysis of Prototype A/B experiment



❌ **Option A loses.**
The heat map shows that the user's attention is outside of the target triggers



✅ **Option B wins.**
The heat map shows that the user's attention is outside of the target triggers

Example of a report sample describing results of a testing

Tips and CI recommendations

- Perform eye-tracking tests in the later stages of the design development, when UI and copywriting is ready.
- Make your test environment comfortable for participants, as it takes time and requires focus.
- Quantify interactions (time of completion, number of mistakes per task, completion itself, etc.).

Accessibility evaluation

What

Accessibility testing involves evaluating the design and functionality of a product or service to ensure that it can be used by people with a wide range of abilities and needs, including those with visual, auditory, mobility, or cognitive impairments.

Format

It could be executed with participants and remotely using special software for product tests like screen readers, color contrast and coding tools, keyboard navigation, and mobile accessibility.

Why

If you are working on a global product, some customers will inevitably have disabilities. For example, around 300 million people have different color vision deficiencies and 1 in 12 men is color-impaired (8%).

1 in 200 women is color-impaired (0.5%).

If your color coding is wrong, it could make it impossible for such people to interact with the product.

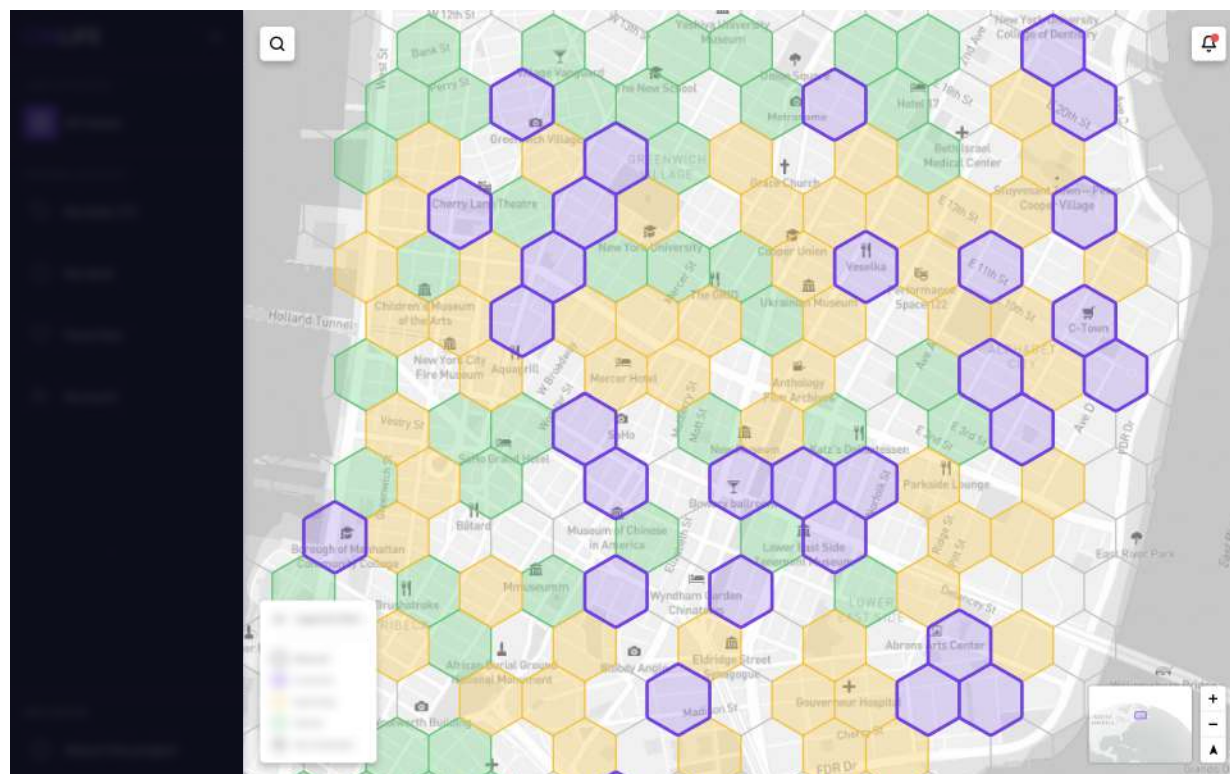
Result and deliverables

- Validation of accessibility level
- Insights for product improvement

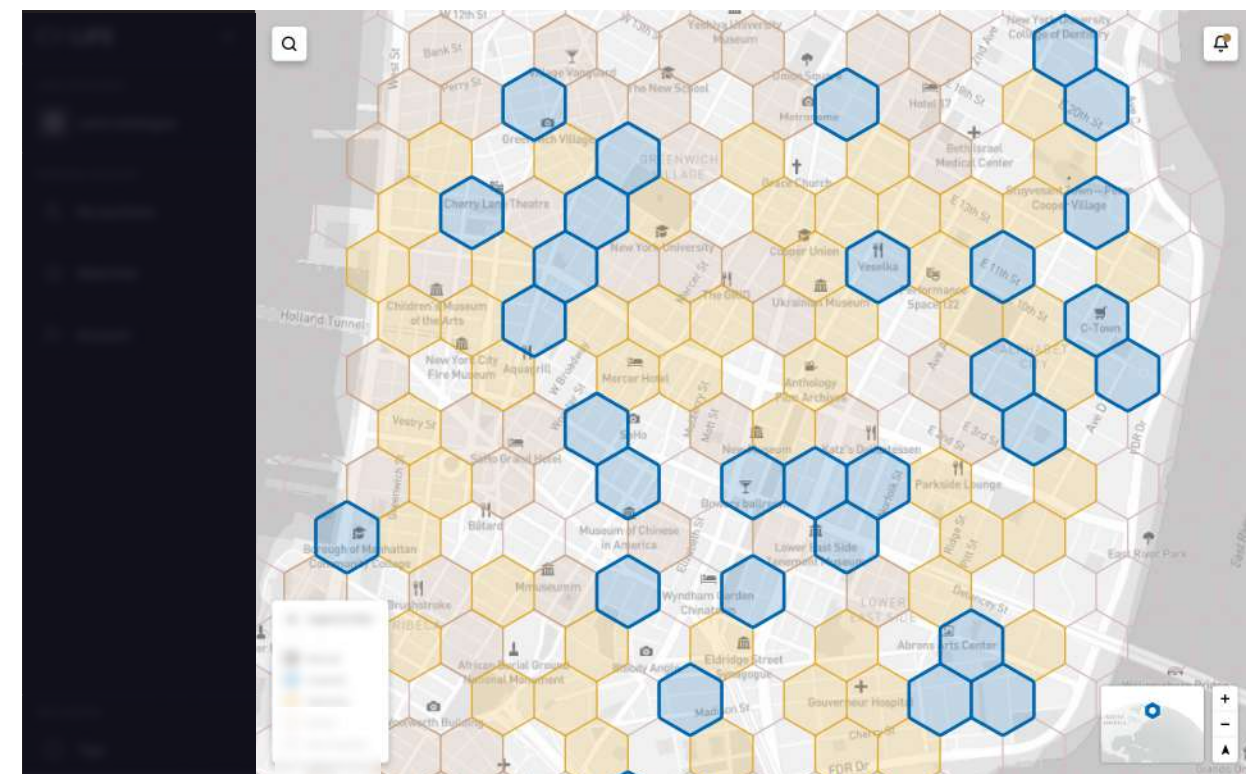
Tips and CI recommendations

- Focus on the disabilities with the highest prevalence.
- You can assess without engaging directly with customers with the help of special software.
- To recruit respondents, connect with local communities that support such people.
- The prototype must be clickable and allow the participant to make mistakes (more interaction freedom).

- The optimal task quantity per session is 8–12
- Quantify interactions (time of completion, number of mistakes per task, completion itself, etc.)



First iteration colour palette



Dueteranopia vision perception

[More about the importance of accessibility in design](#) ↗



Profit validation

how much are people ready to pay?

Monetization model validation

The crucial question for every product is what price strategy to choose to make the business profitable and support customer base growth and retention simultaneously.

There are a few common types of monetization models:

Transactional group

- Subscription – customers pay a recurring fee to access a product.
- Freemium – a product is offered for free, but users are charged for premium features or content.
- Pay-per-use – customer pays a fee per resource usage.
- Transactional fee – product owners get a percentage from each transaction.

Advertisement-based revenue model

- Advertising – businesses generate revenue by displaying ads to users
- No-Ad -businesses generate revenue by charging customers for non-displaying ads

Marginal/commission-based models

- Licensing / One-time purchase – customers pay a one-time fee to access a product or service, quantity of license
- Commission/Markup – businesses generate revenue by adding a percentage to the price or by receiving a commission from the supplier

With the model itself, you need to define the “product lineup” – price points and feature mix.

There are a few methods you can use to find the best solution. Most of them belong to a quantitative type of validation and require you to send a questionnaire to the potential customer base, but in return, they will provide you with the high-quality data needed to make data-driven decisions.

Profit validation methods

Methods	Complexity	Value
Smoke test + A/B/C tests	● ● ● ●	● ● ● ●
Conjoint analysis	● ● ● ●	● ● ● ●
Van Westendorp (PSM)	● ● ● ●	● ● ● ●

Conjoint analysis

What

Conjoint analysis is a statistical technique used to understand how consumers value different features or attributes of a product or service. It helps you understand how to price products and design product packages that will be attractive to consumers.

One of the benefits is that this method allows you to emulate market share by incorporating a competitive product as part of the test.

Format

To conduct a conjoint analysis, a researcher typically asks a group of consumers (250+ respondents) to evaluate a series of product concepts that vary in terms of different features or attributes. For example, the consumers are asked to estimate different versions of SaaS products that vary in terms of storage capacity, integrations, the number of records, users, sessions, and price.

Based on their responses, the researcher can then use statistical techniques to understand how consumers value the different features or attributes and how they influence the overall attractiveness of the product.

Why

It is a powerful tool to define what users value the most, how much they are ready to pay for, and to emulate the market share in a competitive landscape. In the pre-MVP stage, it helps prioritize features and enter the market with the correct price positioning.

Result and deliverables

- Price point assessment
- Feature mix prioritization
- Market share emulation

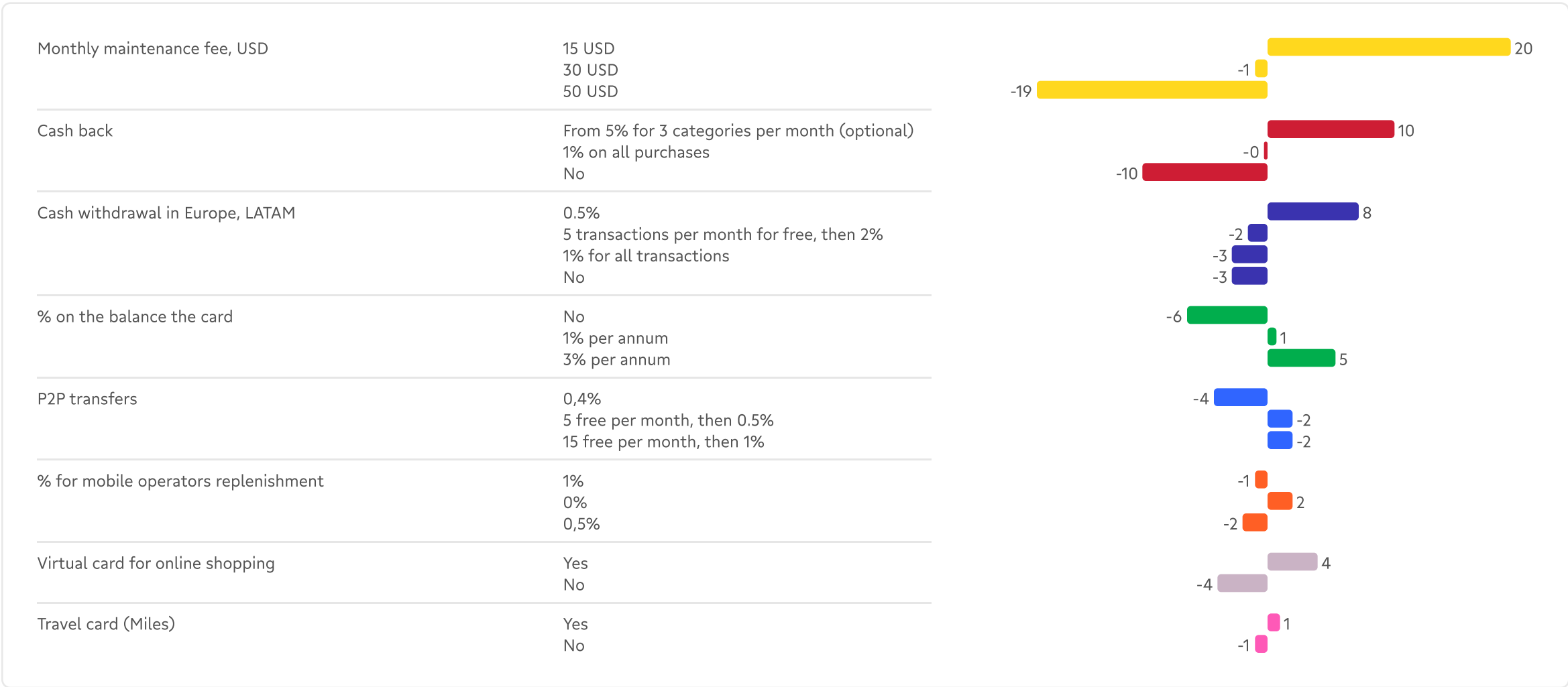
Tips and CI recommendations

- You should be able to collect at least 250 responses.
- Try to test up to 10 features. If you add too many, it will be difficult for respondents to make conscious decisions.
- Always add a brief description of your product. People need to understand what they are assessing.

Conjoint analysis: level preferences

Numerical scores that measure how much each feature/level influences the client's decision to choose an alternative

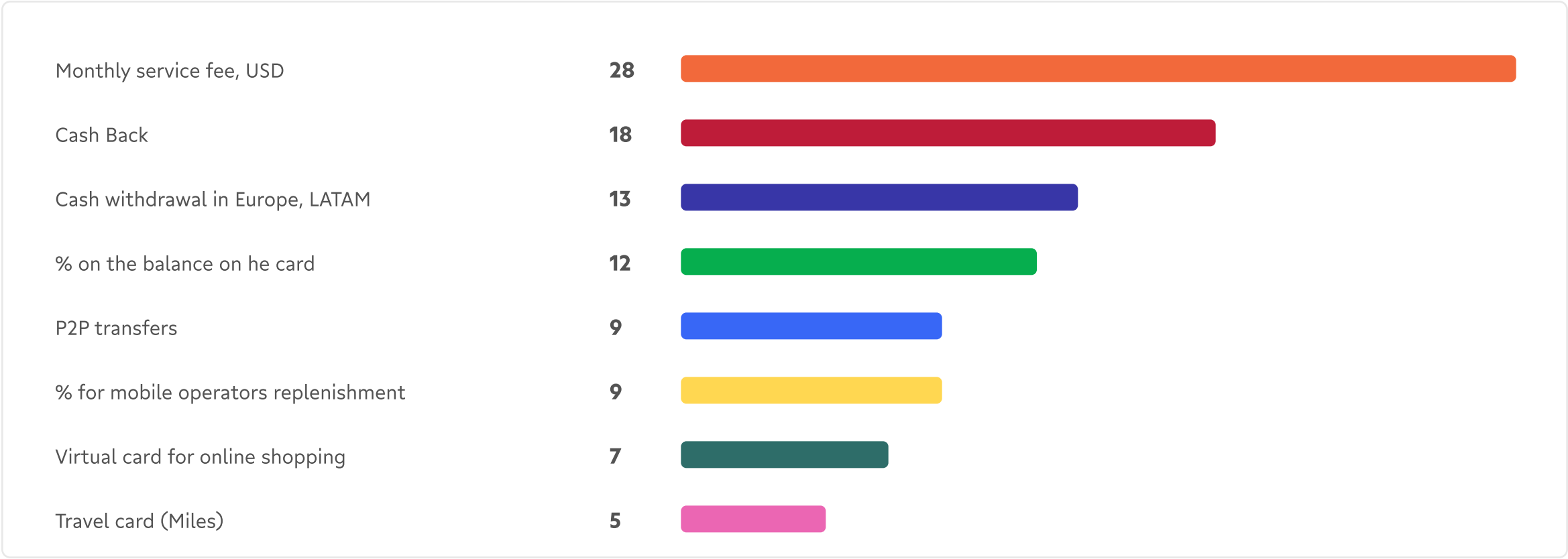
Tiew preferences over other tiers for the average consumer*



Report sample representing Conjoint analysis: level preferences

Conjoint analysis: what we found out

Importance is the mathematically calculated (regression analysis) attractiveness of attributes. It shows which of the various product attributes are more critical in making a purchasing decision.



Report sample representing Conjoint analysis: what we found out

Van Westendorp (PSM)

What

The Van Westendorp price sensitivity meter (PSM) is a market research tool that is used to understand how consumers perceive the value of a product or service and how their perceptions of value change as the price of the product changes. It is often used to help businesses understand how to price their products and to identify the price point at which a product becomes too expensive for consumers.

Format

To conduct Van Westendorp research, a researcher asks a group of consumers (200+ respondents recommended) 4 questions:

- 01 — At what price would you consider the product so expensive that you would not consider buying it?
- 02 — At what price would you consider the product to be priced so low that you would feel the quality couldn't be very good?
- 03 — At what price would you consider the product starting to get expensive, so that it is not out of the question, but you would have to give some thought to buying it?
- 04 — At what price would you consider the product a bargain – a great buy for the money?

Why

By asking these questions to a group of consumers, a researcher can understand how the perceived value of a product changes as the price changes and can identify key price points, such as the price at which the product becomes too expensive or the price at which it is considered a good value.

It is quite simple in the execution method compared to conjoint analysis, can be run fast, and brings a lot of value.

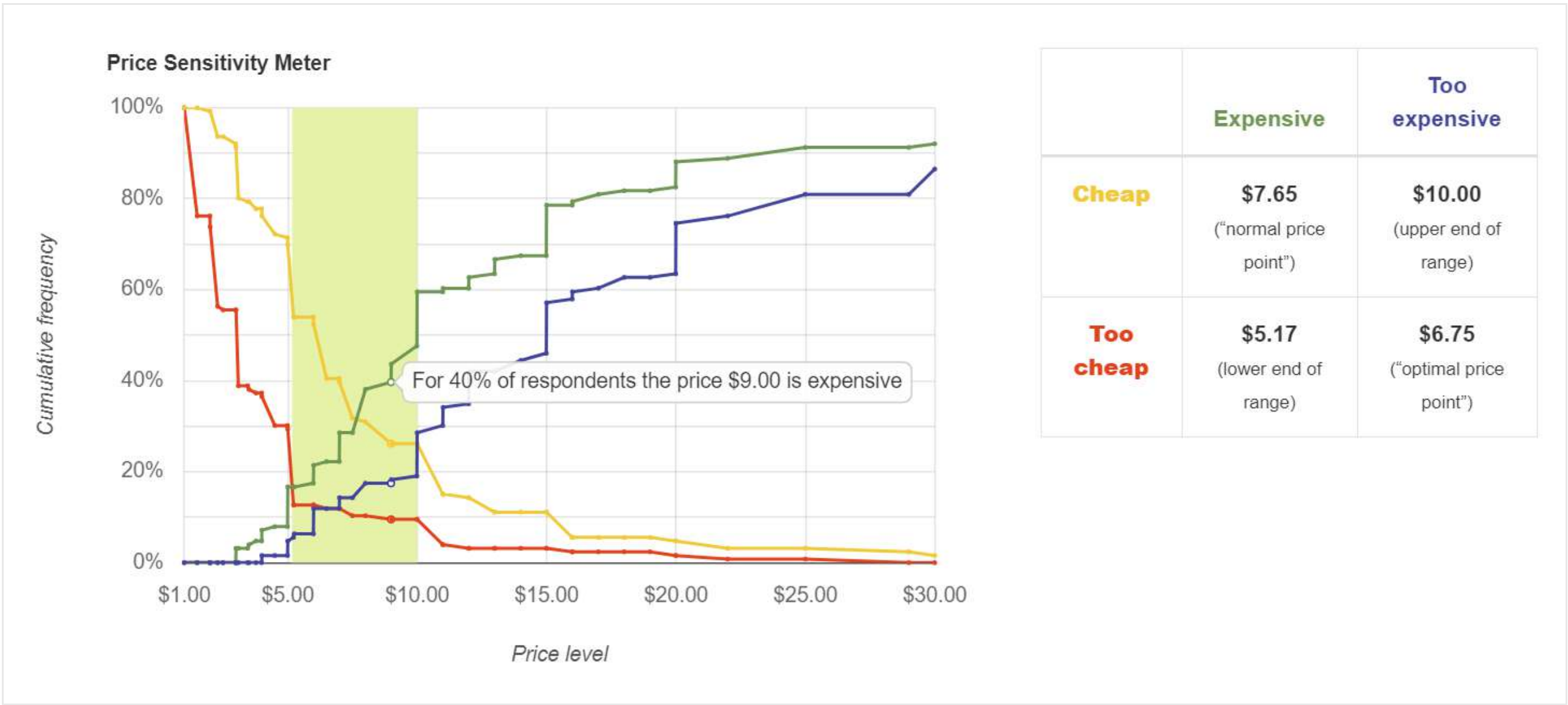


Image source www.conjointly.com

Result and deliverables

- Price points for the product

Tips and CI recommendations

- Before the tests, it is necessary to describe your product clearly. People need to understand what they are assessing
- This method could be used to define the monetization model itself by testing and comparing pricing for different models

Smoke test + A/B tests

What

As we describe in the hypothesis validation section, an A/B test is a statistical experiment that compares versions (A/B/ N) of a product price (SaaS, app, physical product, etc.) to determine which one performs better in terms of conversions, customer acquisition costs, and revenue. The results are compared to determine which version is more effective and emulate real customer behaviour with your product.

Format

Determine what you want to test, e.g. a lower price will lead to higher conversions, and what markets will be in focus – only one market, or different countries.

Create a few product landing pages to emulate accessibility (as we discussed previously, you can use “pre-order” or “waiting list” buttons as a CTA (call-to-action) to track conversion.

Run digital advertising campaigns by splitting audiences and showing them different versions of the price (important – you must use the same TA within one test, splitting it into number of groups equal to the quantity of price versions).

Why

Why the A/B method is valuable:

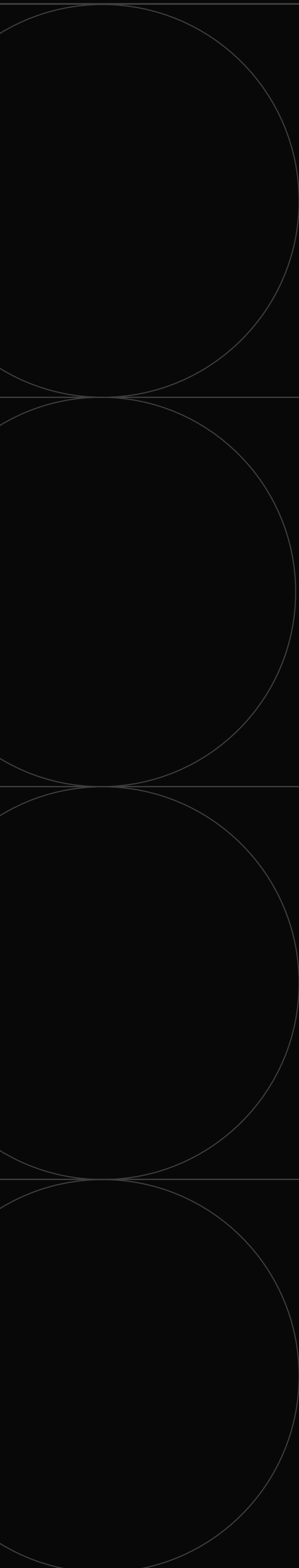
1. Real-world results: A/B testing allows you to test pricing changes in a real-world scenario, giving you a better understanding of how customers respond to different prices.
2. Scalability: A/B testing can be easily scaled up, allowing you to continuously validate and optimize your pricing strategy.
3. Data-driven: A/B testing provides evidence-based insights into the impact of price changes, rather than relying on assumptions or guesses.
4. Cost-effective: Compared to other methods, A/B testing is relatively low cost and requires minimal resources, making it a cost-effective way to validate your pricing strategy.

Result and deliverables

- Real-world feedback about product pricing

Tips and CI recommendations

- To get the most accurate results, try to showcase your product in detail, and close to the real life prototype.
- This method is good for testing mass B2C & B2B products. It is not great for expensive or/and specialised products, due to differences in the decision-making process and smaller target audiences.



Go validate!

What is essential to remember?

Summary

This playbook gives you all the tools you need to test your product hypothesis or run usability and customer experience research on existing products or services.

The methods we listed are pretty simple to execute on your own. For others, finding a competent person or company will help you get maximum value from the research.

We know that every time you speak to the customer, you'll get valuable feedback that helps you enhance your product, derisk your investments, and come up with new ideas.

The earlier you start to do that, the higher your ROI will be.



About Craft Innovations

Craft Innovations is a research & design company that provides customer research, UX/UI, product design, and customer experience enhancement services for enterprises and startups. We are a global company with a presence in North America, the EU, and China (Beijing).

In 2021–2022 our team conducted dozens of UX research and product validation projects with thousands of respondents in the EU and North America, helping to create fascinating products for companies from Fintech and Banking industries, FMCG, Retailers, and Shopping malls, E-commerce/Q-commerce projects, Gaming & Web3 sectors, and the Circular economy.

We know the value of a customer's voice and will be glad to help you get it.

Get a free one hour consultation!

Send us an e-mail with the subject line
Product Market Fit 2023