



Medical Device Pricing and Target Market

Confidential



Robert Hale & Associates

BUILDING BRAND AND MARKET SHARE

Purpose of Study

- The purpose of this study was to:
 - Determine the pricing and product configuration with a high degree of accuracy (hence choice-based conjoint was the design)
 - Develop copy to be used as the basis for marketing communication
 - Identify price elasticity based on target market

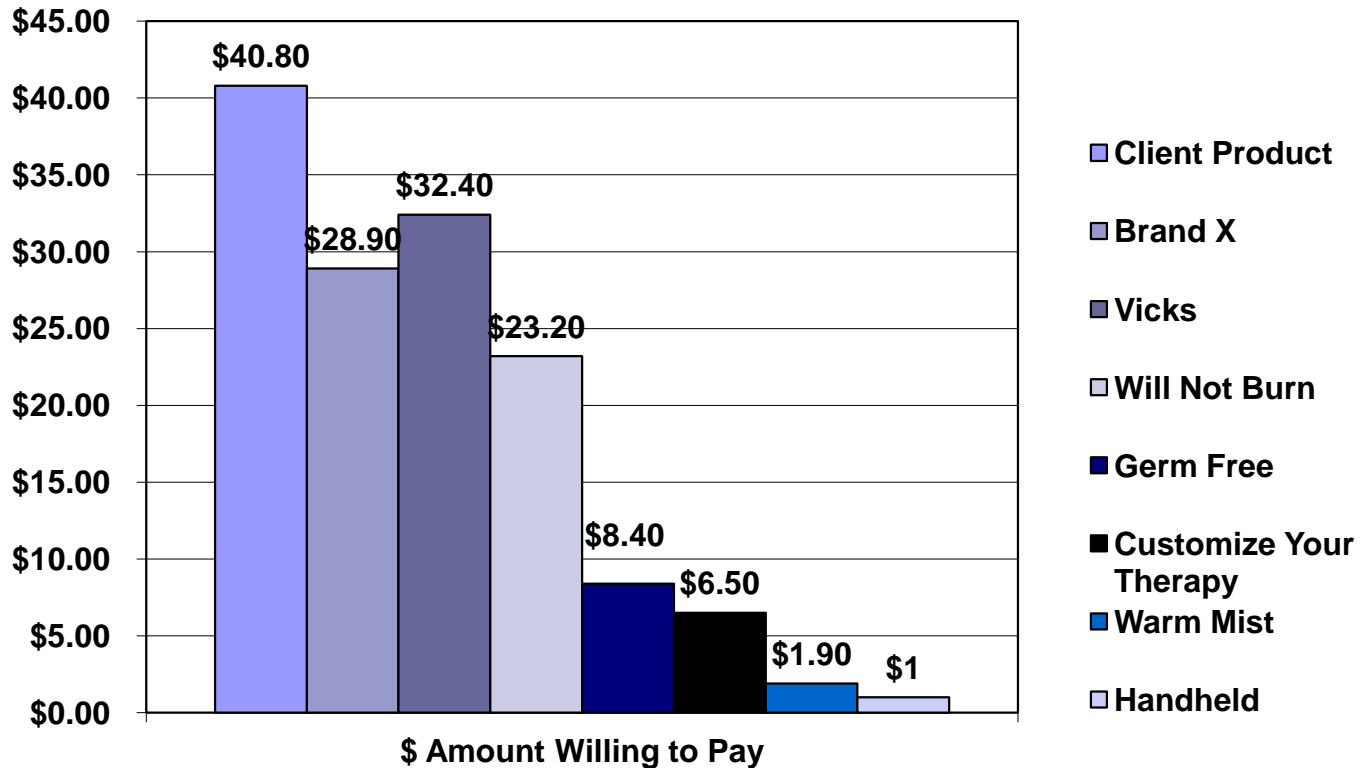
Methodology

- 108 moms were tested using a series of 24 questions to allow them to choose between Vicks, Client, Brand X and no selection, with various options for Client and Brand X (see appendix for questions). This is a choice-based conjoint test.
 - Statistical precision is +/- 9.5% for non-pricing/product questions
 - Since 24 questions were asked by each respondent on product and price (with various combinations), the statistical efficiency is +/- 1.9% at the 95% level of confidence
- Demographics
 - Household income average of \$100K with everyone over \$75K
 - High percent of teachers, stay at home moms and professionals (over 75%)
 - 62% are married
 - 80% own a home
 - All have kids between 0 and 17 years of age

Key Findings

Average Price Respondents Are Willing to Pay for Each Attribute

Basic design and name of Client has a value of \$40.80, and statistically higher than Vicks. After the basic feature of personal humidification, the most important characteristic was “will not burn” with 3X the perceived value of “Germ Free.” Design and name of Client has a \$12 premium to equivalent Brand X.



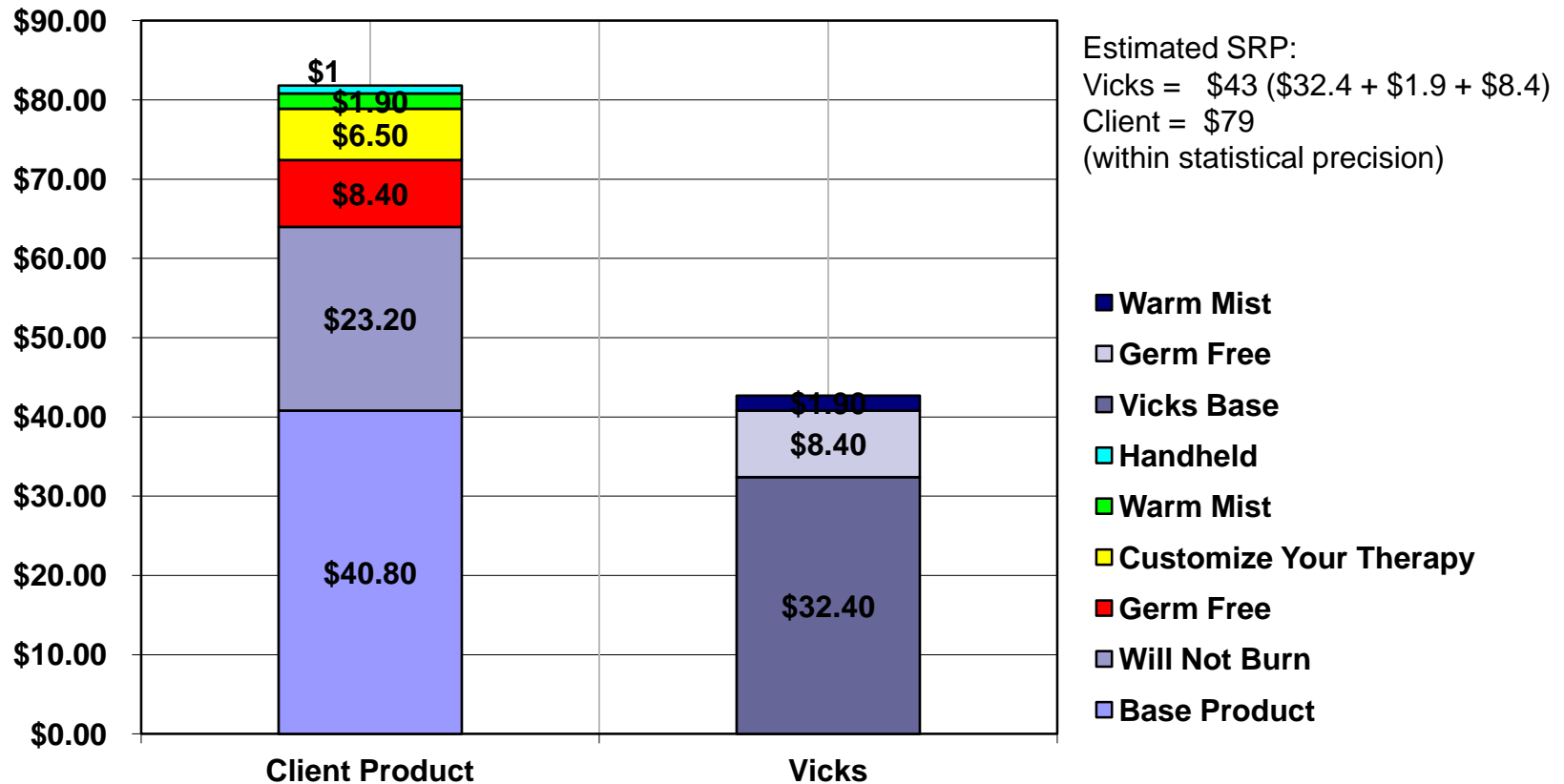
Price of “Client” includes design, basic personal humidification, and name value (as well as Vicks and Brand X).



With the cord it is hard to convince Moms the product is much better than table top based on results of earlier focus groups.

Estimation of Overall Average Price (and SRP)

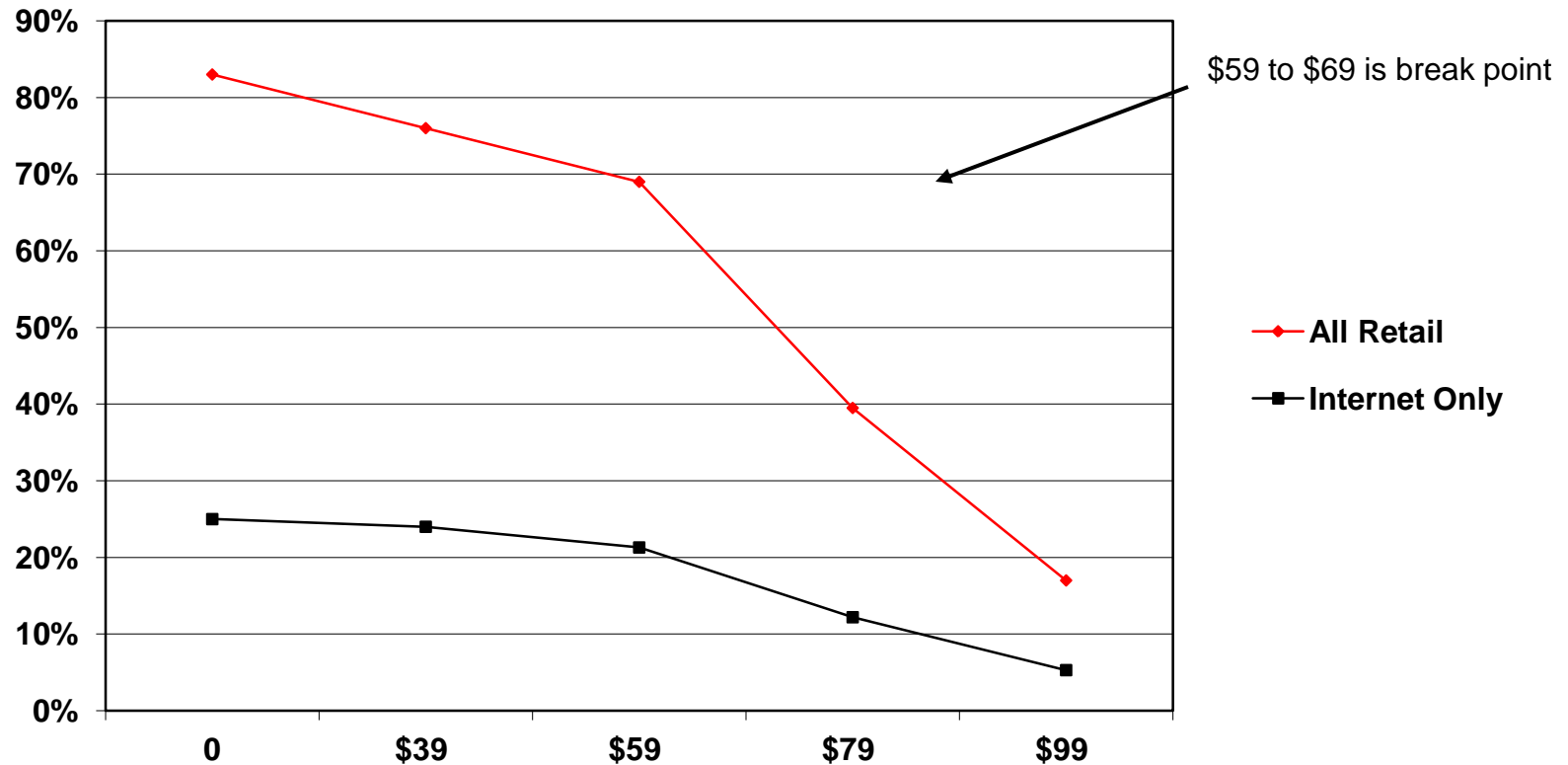
Total average price is \$79 for Client, while for Vicks it is about \$45. This indicates that the SRP of Client should be around \$79 (which is comparable to the SRP of Vicks (which after discounts gets to an effective price of \$39)).



Note: $R^2 = 83\%$ with a statistical significance $> .0001$, constant = 0

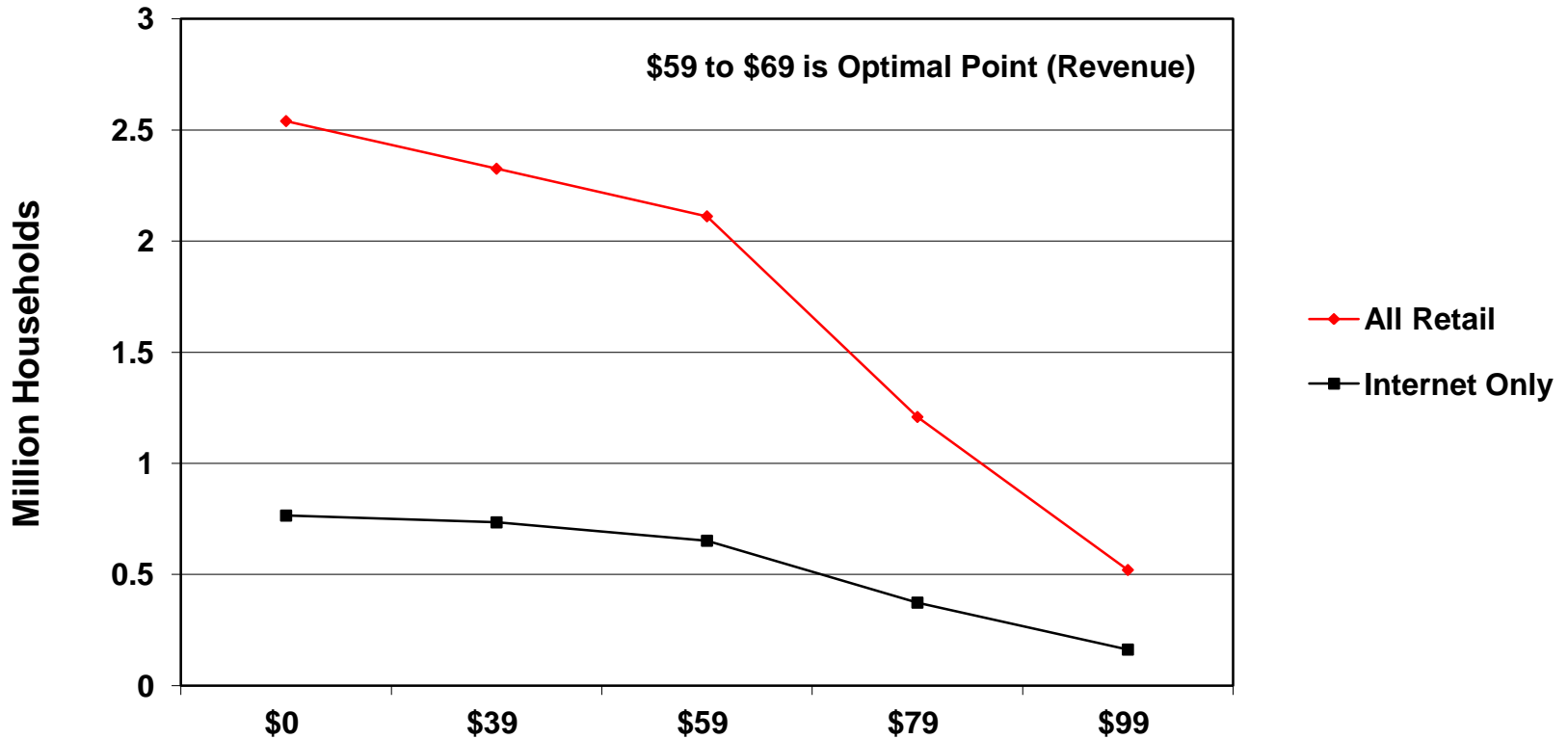
Overall Market Demand

Based on high statistical accuracy we can capture at least 50% of Moms with Kids (who suffer from sinus related conditions) with a \$69 “effective” retail price point. Most early adopters will pay \$69+ (again consistent with initial \$79 price tag).



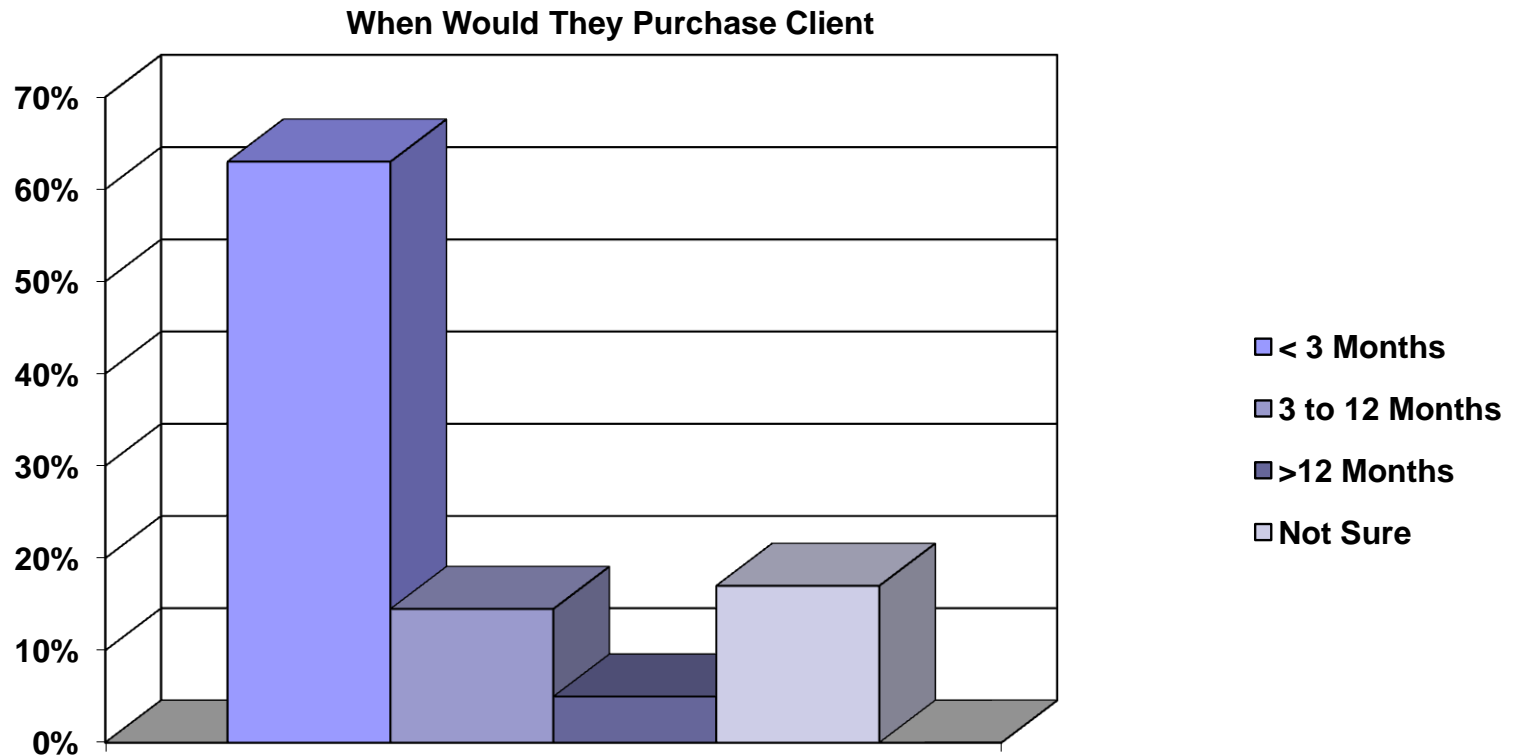
Overall Market Demand *Con't*

The market is 32 million moms with kids and 33% suffer (either child or mom) from sinus related issues (or approximately 10 million households x % of HH over \$75,000 (30.6%) = 3 Million Households). This implies total addressable market is 1.5 million units (with 1 unit per household), or .5 million units via the Internet @ \$69 price after discounts (with SRP of \$79).



Costs and Time to Acquire Customer

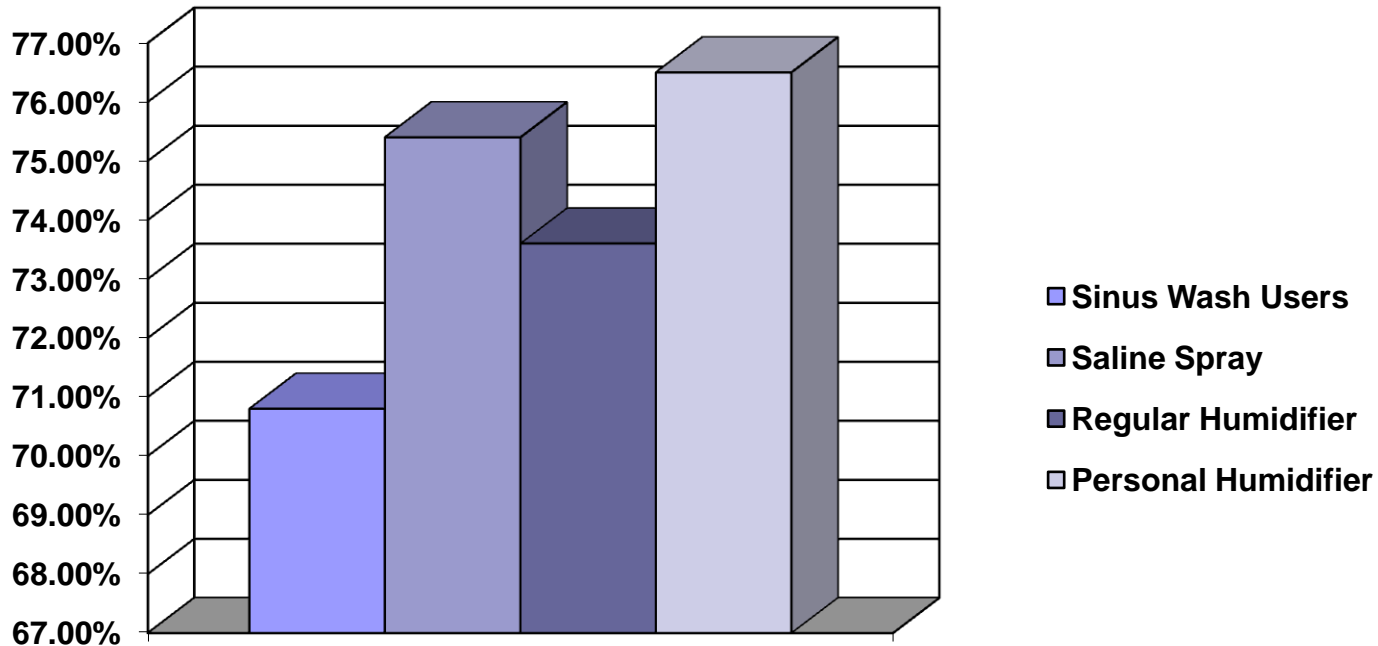
63% will buy within the first 3 months if they have a need and pricing is appropriate (and they know about product). Thus if properly exposed to marketing communication, we can expect to convert 5% of Moms ($63\% \times 33\%$ who suffer from Sinus $\times 30.6\%$ with HH $> \$75K \times 80\%$ with at least one child >5). Note by targeting Pediatricians we expect a much higher conversion rate.



Impact on Natural Product Use on Respondent's Preference for Client

Although current PH users are a good target, they are not statistically better than other targets. Sinus Wash users is a good target, but not as strong as humidifier users in general.

Concentration of Buyers by Product Usage of Natural Alternatives



Percent Who Indicated Preference for
PürMist



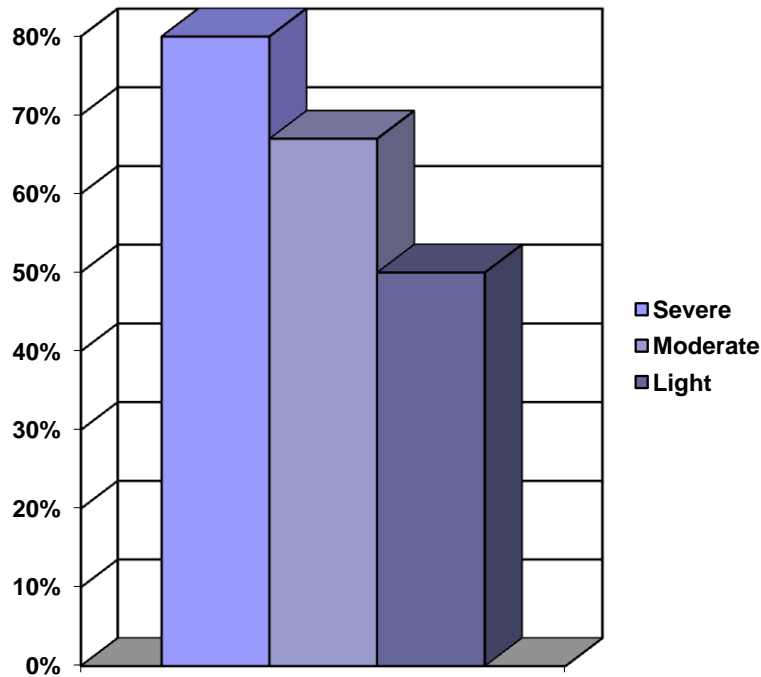
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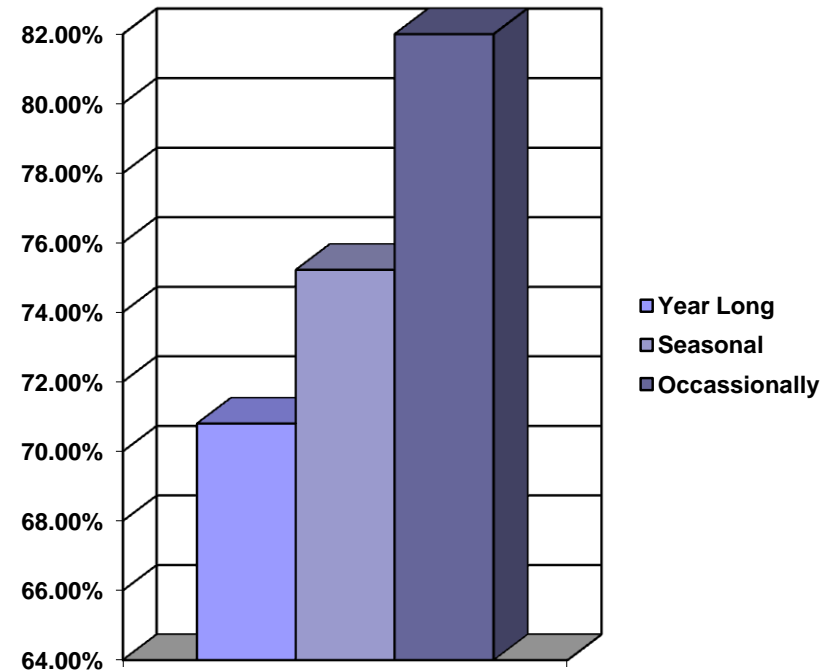
Severity v. Duration for Mom – Impact on Purchase Decision

The severity of the mother’s sinus condition is a good predictor of whether they prefer Client, but not for the duration during the year.

Concentration of Buyers by Severity of Sinus Condition



Concentration of Buyers by Duration of Sinus Condition

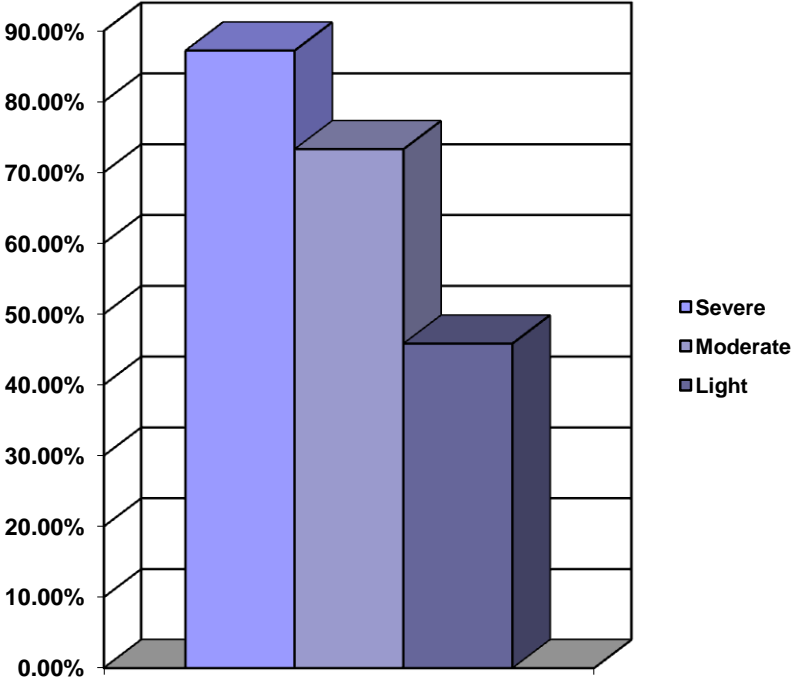


Concentration of Client Buyers

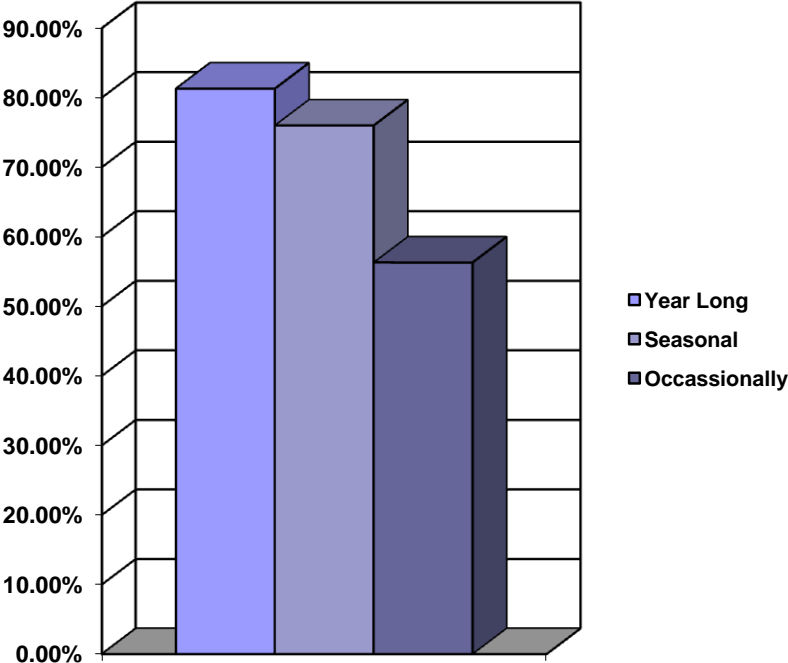
Severity v. Duration for Child – Impact on Purchase Decision by Mom

Severity of the child’s sinus condition is a better predictor of preference for Client, while duration is a good indicator but inferior.

Concentration of Children by Severity of Sinus Condition



Concentration of Children by Duration of Sinus Condition



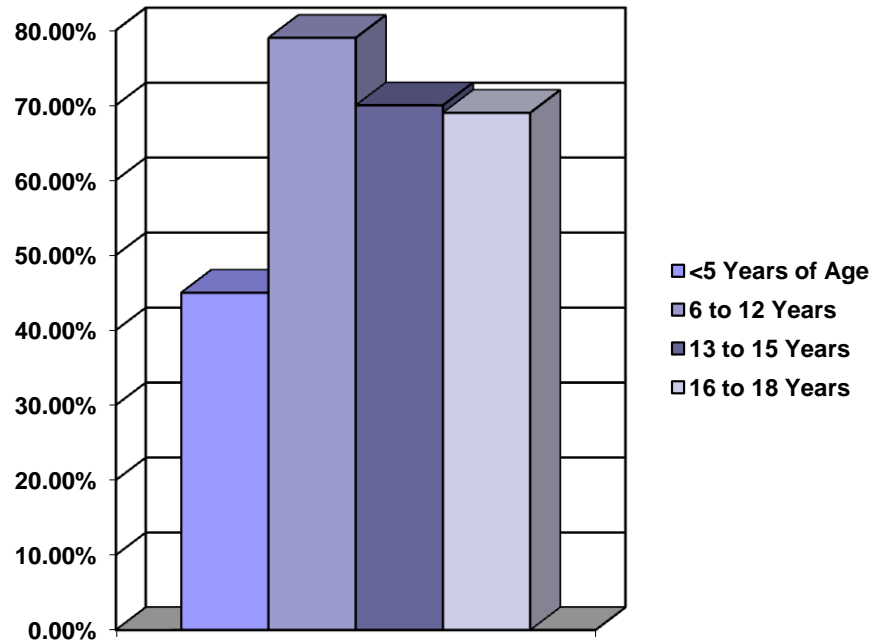
Concentration of Client Buyers



Age of Child is Important

Moms with Kids greater than 5 years of age is the most appropriate (and subsequent analysis based on screener found that if Mom only had child under 3 years of age then very low probability to prefer Client).

Concentration of Buyers by Age of Child



Respondents visit Pediatrician at least once a Year (Good Target for Client)

