engage research
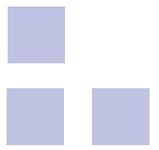
GETTING THE MOST OUT OF CONJOINT PROJECTS

1. How do we know that the results from conjoint will be accurate?

There are two main uses for conjoint in a research context (some projects may combine the two):

1. Looking at the impact of a change in price of an existing product / service in the market

2. Optimising the features of a new product or service

To measure accuracy we need to compare the results from the research with what actually happened in the market place. In the case of the price changes to the existing product and services it is possible to compare research predictions with actual price changes in the market when they have taken place by looking at elasticity (i.e. relative change in demand versus relative change in price).

Overall, comparisons in consumer markets suggest that conjoint is a good predictor of actual elasticity. However, there are categories where predictions are more accurate and those where the predictions are less accurate.

In the majority of FMCG categories such as groceries and multi-pack drinks we see a close relationship. These are situations where there is usually high visibility of price at the point of purchase. Thus the conjoint exercise replicates the purchase experience quite closely.

In other categories the conjoint prediction can over-estimate the actual impact of a price change in market. These categories tend to have one or more features in common;

. smaller choice of products or services available

. one brand dominating the category

. higher levels of brand differentiation

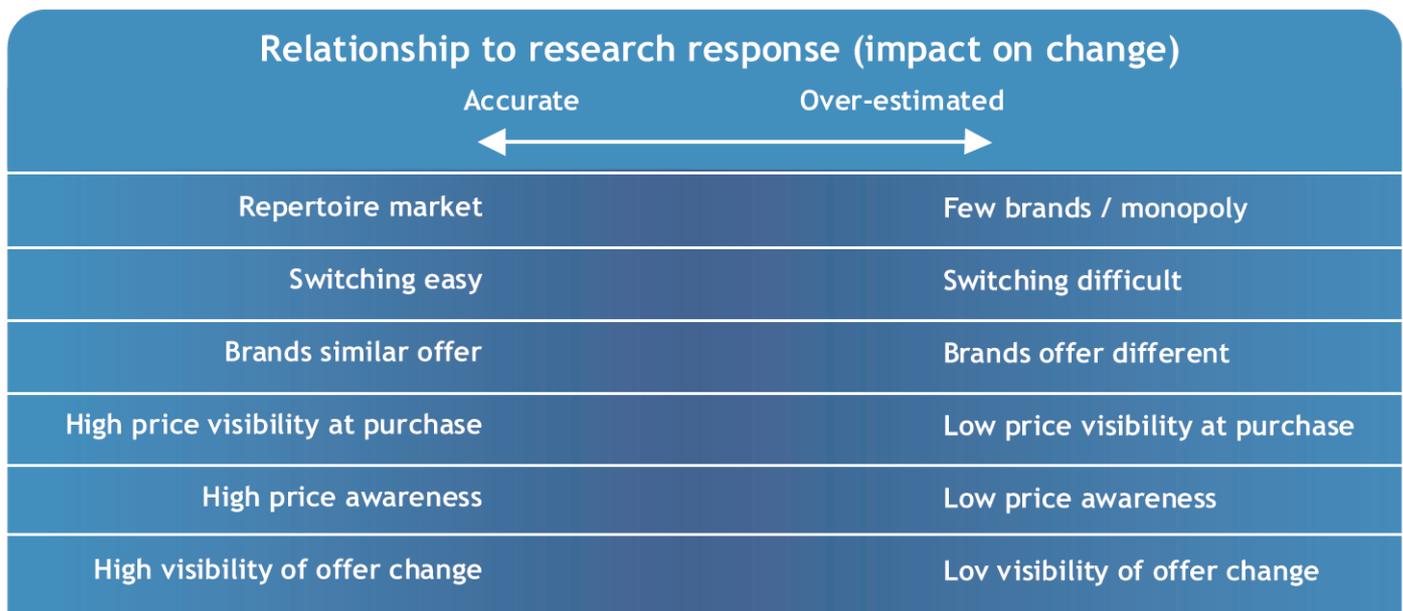. lower visibility of price at point of purchase

It is easy to see how the nature of the conjoint exercise in research can over-emphasise the importance of price. The other characteristics above are more interesting. This suggests that in reality consumers don't switch brands as much as they say they will in the research. This may be because there are no realistic alternatives available, the consumer may be actually more loyal to a brand than they claim (i.e. they are registering a "protest vote" in the research), or that switching brands is actually hard to do (e.g. changing bank accounts). Clearly knowing the factors that can create error in the research allows us to factor these into the prediction (see "How do we maximise the accuracy of conjoint?")

When looking at a conjoint that optimises the features of a new product or service we are not able to compare research to reality (i.e. only the optimised version is launched!). The relevant comparison is therefore with monadic tests where different mixes are tested separately. These comparisons indicate that conjoint is very effective at producing similar outcomes but doing so much more efficiently.

2. How do we maximise the accuracy of conjoint?

When looking at change to a currently available product or service the output from conjoint must be interpreted in the light of the differences between the research exercise and the factors in the market which can lead to over estimating impact.

We have found the framework below to be useful in calibrating for over-estimation. Essentially, if a category is mainly to the left on these factors the more we would expect the raw conjoint output to be accurate. The more factors which plot on the right, the more we need to allow for the raw output over-estimating the degree of change.

Relationship to research response (impact on change)

Accurate ←	→ Over-estimated
Repertoire market	Few brands / monopoly
Switching easy	Switching difficult
Brands similar offer	Brands offer different
High price visibility at purchase	Low price visibility at purchase
High price awareness	Low price awareness
High visibility of offer change	Lov visibility of offer change

The factor at the bottom is interesting. This doesn't relate to the category but to changes, other than price point, made to the individual products or services. Again, in the conjoint exercise it will be clear how a product or service is changing, but in reality this may be far less clear to consumers (e.g. changes to the sectional content of a newspaper, changes to the features in a savings account) At Engage we have considerable experience in adjusting for these factors. For example, we may ask about price awareness in the research and use these data to calibrate the output. We can also account for 'inertia' (i.e. the tendency for consumers to stick to their current brand even when they claim they will switch). This has been shown to markedly increase the accuracy and thus the actionability of the research.

3. Can you combine a conjoint approach with measurement of take up for a new product or service?

Conjoint is a powerful technique for establishing the optimum mix of features for a new product or service. By itself, conjoint does not tell you how many people will take up the new product or service. Estimating take up can be achieved using a

simulated test market approach. However, if there are many possible mixes to test this can be prohibitively expensive. The answer is to combine a conjoint and a simulated test market approach.

The conjoint modelling allows the attractiveness of any combination of mix variables to be calculated (i.e. this could be 10s or 100s of combinations). A simulated test market approach is then used to establish likely take up of a limited number of mixes (a minimum of 4). The relationship between the two (the calibration curve below) allows the likely take up of any mix to thus be estimated.1,

Using a calibration curve to estimate take up of any combination of offer variables

% take up

Reading take up of combination

Attractiveness of combination (utility)