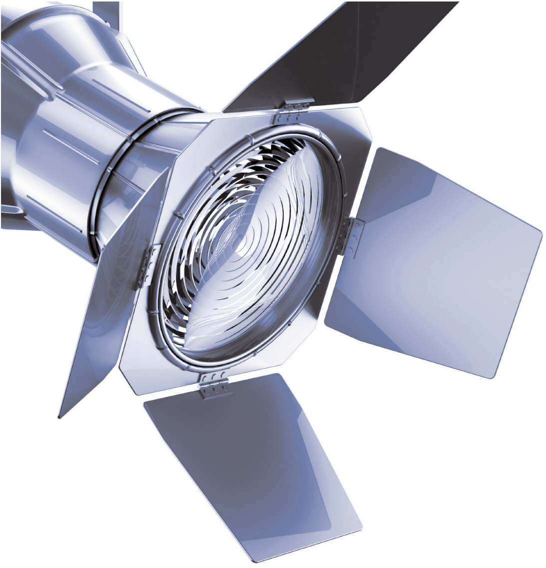


engage research

points of view

THE IMPORTANCE OF PRICE

1. Price & perceptions of quality - do you get what you pay for?

The price is an integral part of the whole product mix and sets up consumer expectations about quality. Therefore, more expensive products are likely to be considered better quality than cheaper products.

This has obvious implications for the design of research. If the same new product could be positioned at different points, then we need to test the different packages (product + price point) separately.

For example, the same drink concept was tested at £12 and £18. The price impacted on perceptions of quality and this also had consequences for occasions and target.

The above pattern is widely seen in concept testing and is hardly surprising. You would expect the more expensive product to be better. More interesting is the evidence that the price also impacts on perceptions of the product delivery, i.e. those who are told the product is more expensive think it tastes better than those who testing the same product but who were told it was less expensive.

More interesting still is evidence that not only is the more expensive product rated better but it produces a more pleasurable experience in the consumer's brain when MRI scanned. So it is not simply the consumers rationalising their experience, they have been conditioned at a subconscious level by the price.

A similar study showed that subjects who were offered an energy drink at a discounted price were worse at solving brain teasers than those offered the same energy drink at a higher price!

2. Early stage innovation research - the role of price?

When turning product ideas into concepts for early stage evaluation should they be priced or not?

Our view is that if the focus of the assessment is the underlying idea then price is not appropriate. Indeed, unless other elements of the mix are known (e.g. pack size, quantity) price is not meaningful.

Once the idea has progressed to a product concept where the price is clearly part of the mix, it may be appropriate to include it. The inclusion makes some measures more meaningful (e.g. purchase intention in relation to a stated price rather than an 'acceptable' price) but there are dangers:

- If consumers reject the concept, is it because they don't like the idea or is the price point just too high?

- Is the price point realistic anyway? At this stage of development can the eventual price point be calculated?

This argues that unless you are pretty sure what the price will be, then don't include price in the research at this stage.

On the other hand, later stage concept or concept/product tests should be priced because price is fundamental to the mix. Note, in these tests we would usually recommend establishing interest prior to the exposure of the price point and thus check if price is indeed a problem. This may be combined with a price sensitivity approach (e.g. Van Westendorp)

3. What is the relationship between brand equity & price?

A few years ago, Asda did a limited run sale of £30 bottles of Dom Perignon. This premium Champagne normally retails in the off-trade at £80+. Around the same time Woolworths offered a bottle of real Champagne for £5!

These were tremendous bargains because we know that that brand (or Champagne generally) should cost a lot more. However, the reaction of Marketing was to describe the activities of Asda & Woolworths as having a negative impact on the catogory;

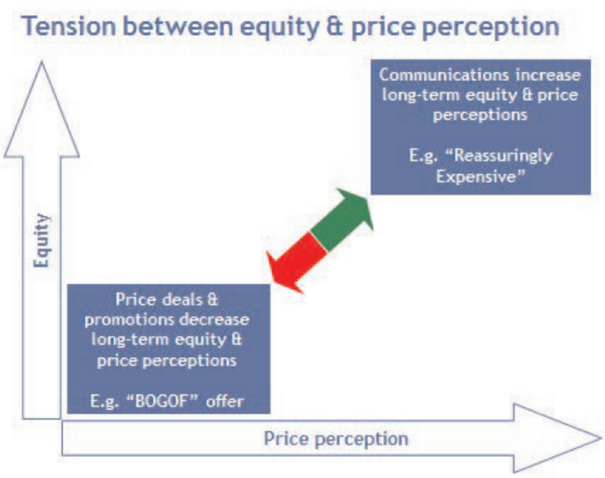
"the perceived value of Champagne has also been affected by retailers keen to offer discounts to drive footfall and volume sales"

The implication is that substantial price discounts can erode equity. This is because the price point is a key part of the mix. Indeed, a premium lager in the UK has long differentiated itself by being "reassuringly expensive"

If your brand has a very established equity, it will not be negatively impacted by the occasional short-term promotion. However, when even a strong brand is consistently promoted or discounted this can lead to an erosion of brand equity

Marketing activity has the potential to both increase and decrease brand equity. Brand building activities such as advertising may have the objective of building equity, while continued discounting can have the opposite effect.

There may be a tension between the brand activities and the commercial reality, e.g. the message may be that the brand is premium while at the same time it is heavily promoted as in the following diagram.



Of course, this has implications for how we design and conduct research.

For example, when looking at optimising pricing strategy using techniques such as conjoint, we are asking respondents to trade off between brand + price packages. This assumes that the brand is a constant and the price is the variable element.

In the short term this is the case. However, we know that over time the equity of the brand is impacted by the price position. This should be taken into account in the analysis and recommendations.

4. Why are some categories more price elastic than others?

A critical factor in pricing strategy is elasticity, i.e. how does demand change when price changes. Price elasticity is defined as the proportional change in demand relative to the proportional change in price. If the price increases by 10% but sales drop by 20% then the price elasticity would be -2.

Analysis of sales data indicates that there is quite wide variation between categories in terms of elasticity (note, we are referring to the products / brands moving price within the category rather than the category as a whole).

The more elastic categories tend to have some or all of these features:

- wide choice of brands (or skus) available
- no one brand dominating the category
- lower levels of brand differentiation
- high visibility of price at point of purchase

The less elastic categories tend to have some or all of these features:

- narrower choice of brands (or skus) available
- one brand dominating the category
- higher levels of brand differentiation
- lower visibility of price at point of purchase

This is actually very logical. The purest example of the first category is a commodity market where there is no brand differentiation and price is dominant. Examples of the second category would be colas in impulse, MP3 players, newspapers and cigarettes.

This may seem obvious but these differences are not routinely taken into consideration when designing and analysing research projects such as brand price trade off studies and conjoints.

66 Alwyne Road, London SW19 7AE
Email: engage@engage-research.com
Telephone +44 (0)20 8819 5532