



Pricing for Researchers: In-Market Price Tests

Background

- In-Market research is widely used to test and validate optimal price levels for both new and mature products.
- In-Market research can quantify the effect of a significant price change or price promotion on; total actual consumer demand (i.e. category, brand or SKU level), product line cannibalization, consumer pantry loading, etc.
- This research methodology has been used informally by retailers since retailing originated. Now with the relatively recent developments in data capture and analysis technology such as; POS scanners, corporately networked store level cash registers, large and manageable sales databases and analytical software, this form of market research is now more accurate and feasible than ever before.
- In-market research is described in many published journal papers and books such as Power Pricing & Why We Buy. In-market research takes on two general forms observational and actual sales volume analysis. Underhill (1999) in Why We Buy employs observational in-market research. This form of observational research yields findings such as; 86% of women look at price tags when they shop while only 72% of men do.
- This review is focusing on in-market research that employs the analysis of retail sales data. In-Market research also takes place in other industries such as; the airlines, direct marketing, internet services, financial services (B2B) etc.

Description of How it Works

- The product and price levels to be tested are defined.
- The specific region(s), number of retail stores, and time period are also defined. These specifications are based on the desired statistical significance.
- Retail stores are classified and then put into a randomized block design. This is a procedure that minimizes day to day sales variances at the individual store or regional level.
- A control group, control period or historical data review can be used as the base data for the analysis.
- The sales data can be either captured by POS scanner data or regular inventory counts.
- Once the fielding is complete all the POS data can be organized to estimate price elasticity, cannibalization rates & actual changes in purchase frequency of the product or service.

Strengths

- In-Market research has the advantage over surveys in that actual customer behaviour is observed (i.e. one measures what people do rather than what they say they would do).
- This research analysis produces information that gives strategic direction for marketing managers. It can be helpful in developing forecasting and planning models.
- This pricing research method is ideal for testing specific price points, pricing strategies and tactical promotions.



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- In-Market research can be used to validate other forms of market research and address high risk questions (Mohn, 1998).
- Modern data management systems provide a high level of data integrity and control in real time.

Weaknesses

- Depending on the category and design an in-market price experiment can be costly and possibly slow to execute.
- Planning must take place and be budgeted for far in advance of the actual fielding of the in-market test.
- The product must already exist and be marketable through the trade channel.
- It is not possible to segment consumer types or estimate the value of different product attributes.
- All significant uncontrollable market externalities that may also affect the product's demand must be realized and quantified if necessary (i.e. other brands promotions, advertising, SARS, blackouts, holidays, stock market crashes, trade disputes).

Measures of Predictive Validity

- The field results and analysis are based on actual consumer's purchases in the real market. In-market tests validate other forms of consumer research.
- The predictive validity of in-market tests is dependent on the overall design integrity and control of the experiment.

Our Assessment

- The research design for in-market tests is complex. All aspects of the design and product category must be well thought out.
- One of the most significant limitations of achieving success using an in-market price experiment is securing the cooperation with the trade channel or final retailer. Buy-in and a commitment of support for the in-market test must be secured from the retailer early in the planning process. Normally incentives and access to the research findings can achieve cooperation.
- The methodology produces very reliable and effective results if executed properly. The results are understandable and easily translated into executable action by the product manufacturer's team.

Source:

1. Dolan, R.J. & H. Simon. (1996). Power Pricing: How Managing Price Transforms the Bottom Line. The Free Press: Simon & Schuster. New York.
2. Underhill, P. (1999). Why We Buy: The Science of Shopping. The Free Press: Simon & Schuster. New York.
3. Mohn, N.C., Coca-Cola Research Institute – Marketing Division. (1998). Pricing Research for Decision Making. Marketing Research Vol 7(1) pp. 11.