The Strategy Group

*Turning Information into Insight*

# The Optimal Pricing Strategy

# The Situation

The market leader in a category of shelf-stable convenience foods was about to launch a major packaging improvement and needed to determine how consumers would react to the improvement if coupled with a concurrent price increase.

Our task was to measure price elasticities for both the current and improved version of the client brand as well as for competitive offerings.

# What We Did And How We Did It

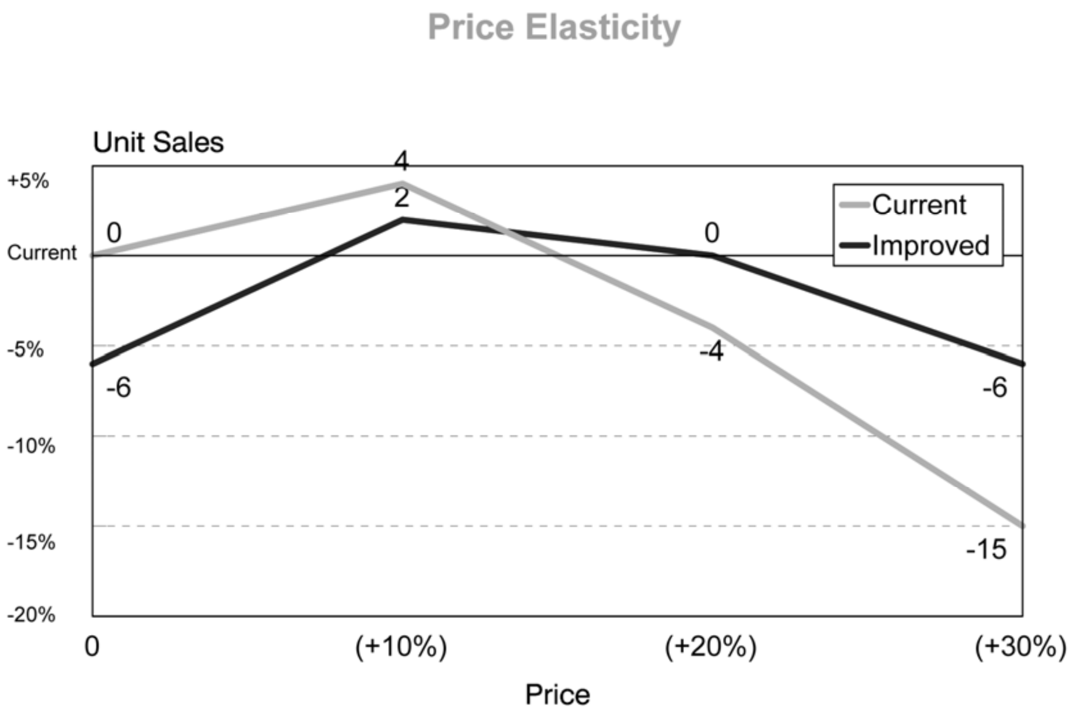
Our recommendation was to use a Price Elasticity Measurement Model that predicts the sensitivity of demand for a product or service to changes in that product's own price, as well as to changes in the prices of competitive products.

Respondents are exposed to a series of pricing scenarios, where each product in the category is assigned a specific price dictated by an experimental design. Your product and the competitor's products are typically studied at three or four price levels:

- 10% less
- Current price
- 10% more
- 20% more

# The Results

An analysis of price elasticities relative to competition revealed that the client brand was currently under priced. Simulations showed a gain in share by raising the price 10%. The brand was apparently under priced in the mind of the consumer, a "high quality" product being offered at a "reasonable" price.




If introduced at the current price the improved version would actually do worse than the current line. Note the 6% decline in the chart above. This meant that making the packaging change without a price increase, as had been originally intended, would create an even greater price/quality disparity in the mind of the consumer.

The improvement becomes more credible to consumers when accompanied by a price increase of 10% or more. At a 20% price increase, the package improvement is a substantial benefit in reducing the volume loss that would otherwise occur.

The Price Elasticity Model used in this research represents a new class of conjoint analysis models that have important advantages over more conventional methods of pricing research. Knowledge of your brands price elasticity is vital to making the optimum decision regarding your brands pricing strategy.

**For more information:**
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