



Pricing Research in Developing and Emerging Markets

For most products the price is the predominant influencing factor regarding sales, revenue and profit. Market researchers can use different tools to understand and predict price-dependent preferences. But how do these approaches operate in developing and emerging countries? **Frank Drewes** and **Isabel Lupold** illustrate the challenges price research has to face in these markets.

Empirical pricing research has assisted marketing in its pricing decisions for more than half a century now. In this time, both researchers' understanding of prices and their methodology have improved profoundly. However, it took quite some time for pricing research to formally acknowledge and address the informative function of prices. "The cheaper the price, the higher the purchase intention" was supplemented by "... as long as it does not question the quality". On the methodological side, the straightforward question for priced purchase intention was enhanced in the form of the Gabor-Granger approach, repeatedly asking for purchase intention at different prices. Van Westendorp developed his Price Sensitivity Meter that assumes four qualitatively different price thresholds. Conjoint-analytical techniques opened the way to a theoretic

ally sound, highly precise understanding and prediction of price-dependent preferences and choice behaviour. Current research activities cover the cognitive processing of price information, its neurological representation and the price emotions that will eventually allow the prediction of each consumer's ideal, "emotionally affirmed" price. But are the objectives of pricing research relevant and its tools feasible in developing and emerging markets?

Particularities and Challenges

In the last five years Harris Interactive has conducted several pricing research studies in developing and emerging markets ranging from Nigeria, Kenya and Saudi Arabia to Russia and China. Each project naturally held its own particularities and challenges, ranging from survey fielding to methodology and interpretation of the results. Having said this, all projects worked well in the end and yielded insights on the same level as projects in developed markets. In most developing and emerging markets, there is no way around local research agencies. Without exception we experienced our local partners as highly competent and dedicated. In many emerging markets, online surveys using access panels are already feasible with the common limitations in terms of representativeness: online panel members in these countries tend to be younger, more educated and urban than the national average. In developing markets, we normally conduct face-to-face recruitment with subsequent computer-aided online interviews in central locations. Using at least three recruitment areas in combi-

nation with quotas on age, education and rural versus urban location, grants some degree of representativeness for the target group in question. Survey lengths of ten to twenty minutes have proven to be absolutely feasible in both survey settings.

Full Spectrum of Research Methods

Over the five last years, we have used the full spectrum of pricing research methods ranging from the Gabor-Granger approach to volumetric Discrete Choice Modelling (DCM) in a virtual-shelf setting. Within their respective scopes, all methods yielded satisfactory to excellent results:

Gabor-Granger Approach and Van Westendorp Method

The Gabor-Granger approach proved to be a straightforward tool to estimate the price acceptance for new products with a simple demand curve. Meanwhile the Van Westendorp's Price Sensitivity Meter (PSM) is a proven tool to establish an understanding of the price perception in a market. It is probably the most difficult tool to implement in any market given its dependency on the understanding and interpretation of terms like "cheap" and "expensive" by respondents. A perfect translation into the local language is mandatory and caution in the interpretation of the results advisable. PSM results of a representative set of brands, products and package variants provide information about the current price structure - including entry prices and price threshold from the consumers' point of view.

Discrete Choice Modelling

Traditional DCM with several features and feature levels is used to identify product attributes which drive not only purchase intention but also willingness to pay. Apart from the more abstract identification of preference structures expressed as part-worth utilities, it provides a mathematical model for the simulation of complex value-based pricing scenarios. In Consumer Packaged Goods (CPG) categories, DCM in a virtual shelf enables the simultaneous consideration of dozens of products and their joint price architecture. It also allows an assessment of the attention-getting value of new products at the point of sale, the visual appeal of new packages, the optimization of the product line-up and the acceptance of new, especially larger package sizes. The last-mentioned objective is of special interest in developing markets where turnover

Correlation Between Share of Choice and Market Share

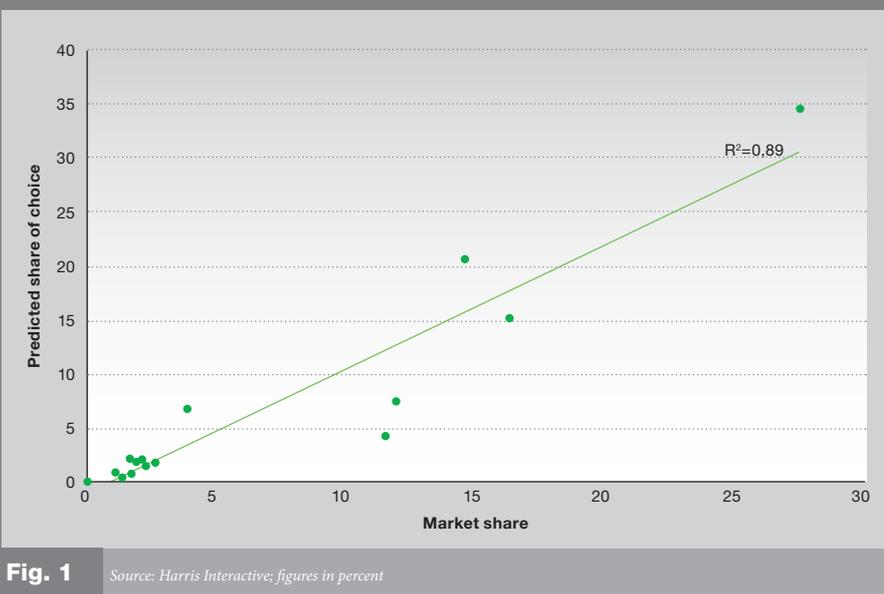


Fig. 1 Source: Harris Interactive; figures in percent

per unit is low due to small packages. In other words, it is probably the most versatile CPG research instrument including, but not restricted to, pricing research. The nonverbal assessment of price-dependent purchase behaviour in a realistic competitive environment ensures a high validity of the results even in the absence of empirical and practical knowledge in a market. Figure one shows the high correlation between predicted share of choice and market share indicating the high performance of DCM in a virtual shelf in developing and emerging markets. So far, we have neither encountered a country without at least some professional market research capabilities nor a methodology that could not be used in developing and emerging markets.

Counter-Measures Against Inflation

A recurrent challenge in pricing research for developing and emerging markets is the interpretation of findings against the backdrop of high volatility. Inflation rates of ten percent or more can quickly invalidate any results based on concrete prices. We apply three counter-measures:

- Inclusion of basic goods like bread and milk in FMCG surveys provides benchmarks for a relative interpretation of concrete prices. Following a simple analogical conclusion, a concrete price for the interesting good is translated into price equivalents for a basic good. This measure works sufficiently well as long as there are no genuinely qualitative changes in the market – major losses in general spending power due to economic crises can sever the perceived connection between prices for basic and more advanced goods.
- Additional questions about the subjective economic vulnerability of respondents provide an indication of the likely impact of such qualitative economic changes. An increase in income fairly similar to inflation prevents an actual loss of buying power and the necessity for major changes in price perception and purchase behaviour. Again it is a measure that requires at least some economic stability.
- Sensitivity analyses assess the vulnerability of survey results under varying framework conditions including major economic crises. It is less a point of estimation of results but more a form of checking recommendations against a wide range of more or less likely developments. As such it also helps to identify conditions which increase the prospect of success for certain products, packages and price structures.

Taken together, these measures provide fairly interpretable results even in highly volatile markets.

Importance of New Markets

At first glance, pricing research and its objectives seem of low importance in developing and emerging markets. Financial resources are scarce, consumers' needs and demands are at a basic level, and the corresponding products and services offered are well understood decades after their introduction in the West. In reality, these markets grow at a much higher rate, needs and demands can be as diversified as the needs and demands in mature markets. Also, the experiences gathered in western markets do not necessarily hold true in developing and emerging markets. More or less unnoticed by consumers in the West, the importance of new markets is in many cases as great as – and in some instances has surpassed – that of established markets. Demographic growth and increasing wealth will further increase the importance of new markets for international major corporations whereas local manufacturers and providers will gain ground on them. Both developments will increase the importance of market research in these markets. And more and more companies will recognise the understanding of price perception, price evaluation and price-related purchase behaviour as one of the key drivers of success. ■

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