

Pricing Research in Developing and Emerging Countries

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 concerning confectionery in developing and emerging countries?



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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. 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.

The experiences gathered in western markets do not necessarily hold true in developing and emerging markets. Therefore market research is indispensable. In these markets not only the needs and demands are different from industrial nations but there are also cultural differences and special customs to consider. In China for example sugar confectionery is the biggest confectionery category by value, owing to its strong cultural significance. Sugar confectionery products symbolise good luck and hospitality and are thus regarded as essential for wedding celebrations and other traditional festivities. On the other hand, sugar-free, medicated confectionery saw the most dynamic growth on the Chinese market in 2015. The reason behind this is China's rampant air pollution – a prime cause of sore throats and respiratory distress. Chinese consumers are resorting to herbal medicated confectionery in an attempt to alleviate the unpleasant

symptoms. And not only market research on general is helpful in these markets but also price research in particular supports important marketing decisions. In many developing and emerging markets there are absolute price limits for confectionery. Sweets industry reacts on these facts by offering a single, small version of their products at a very low price, for example in India. That has made chocolate confectionery affordable to rural and third tier city consumers.

Full spectrum of pricing-research methods

Over the last five years Harris Interactive has conducted several pricing research studies on sweets and confectionery 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. 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. In developing markets, we generally recommend face-to-face recruitment with subsequent computer aided online interviews in central locations. Survey lengths of ten to twenty minutes have proven to be absolutely feasible in both survey settings.

In these studies, we have used the full spectrum of pricing research methods ranging from the Van-Westendorp Method to volumetric Discrete Choice Modelling (DCM) in a virtual-shelf setting. Within their respective scopes, all methods yielded satisfactory to excellent results.

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.

Traditional Discrete-Choice-Modeling (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. 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.

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:



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- 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.

Résumé: Developing and emerging markets offer big chances for the sweets industry. But we have to avoid some prejudices, one of them being the opinion that we already know the market mechanisms from our experiences with western countries. Developing and emerging markets don't function in exactly the same way. But market research delivers precious information for making the right decisions by the understanding of price perception, price evaluation and price related purchase behaviour.

About the company

Harris Interactive AG is a consulting market research agency which offers full-service solutions. It operates internationally in business-to-business as well as consumer markets for automotive, energy, finance, healthcare, consumer goods, media, technology, telecommunications, travel and entertainment.

The agency combines specialist know-how with award-winning research designs and innovative tools, in order to answer its clients' questions individually. The range spreads from tactical individual projects up to strategic tracking studies.

Harris Interactive AG has its own experts for all market research phases: design, field work, analysis and report. The special strengths of the company are fact-based consulting on pricing, brands and new product development.

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