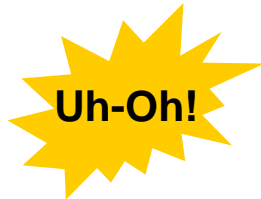
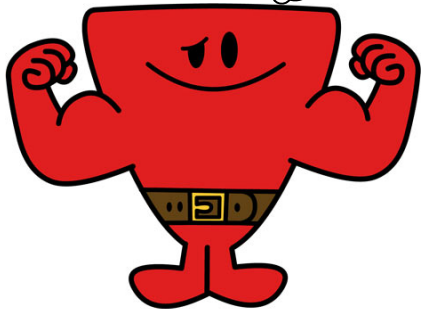


Measuring sensitivity to price change in low unit cost categories



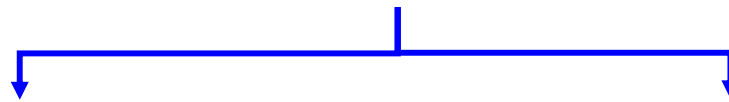
Hi, I am big brand, in a **low per unit price and high purchase frequency** category. And I am looking at ways to grow my margin.



Increase volumes

With 70%+ share & 100% category penetration I have nowhere to go!

Possible route to increase margins.



Increase costs



How will an increase in cost affect my volume and revenues?
What is the maximum price I can operate at?

Need for pricing research

Methodology : Choice Based Conjoint

To understand consumer preference in a simulated real market scenario a **Choice Based Conjoint** was used.

Respondents were asked to choose from multiple market scenarios. Each contained a few product combinations:



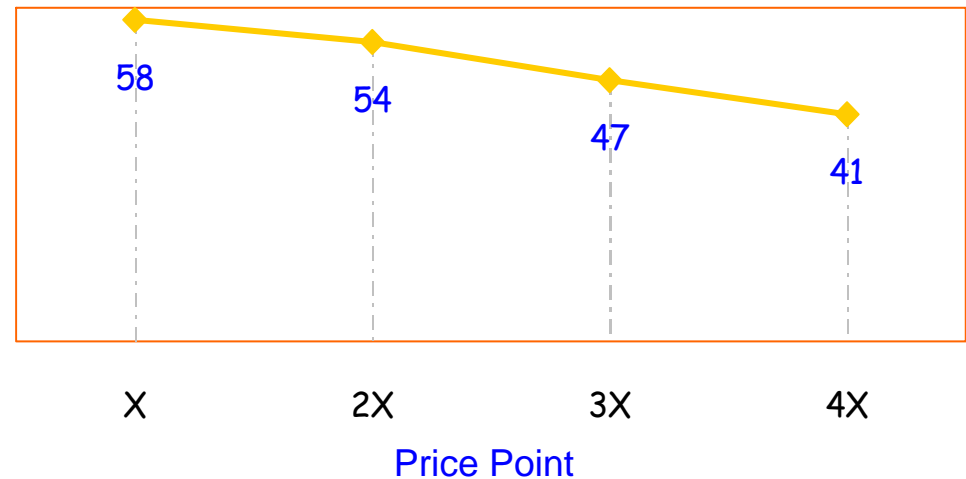
We calculated utilities for each level for attributes like price, SKU etc..



From these, preference for each brand at various price points was calculated.



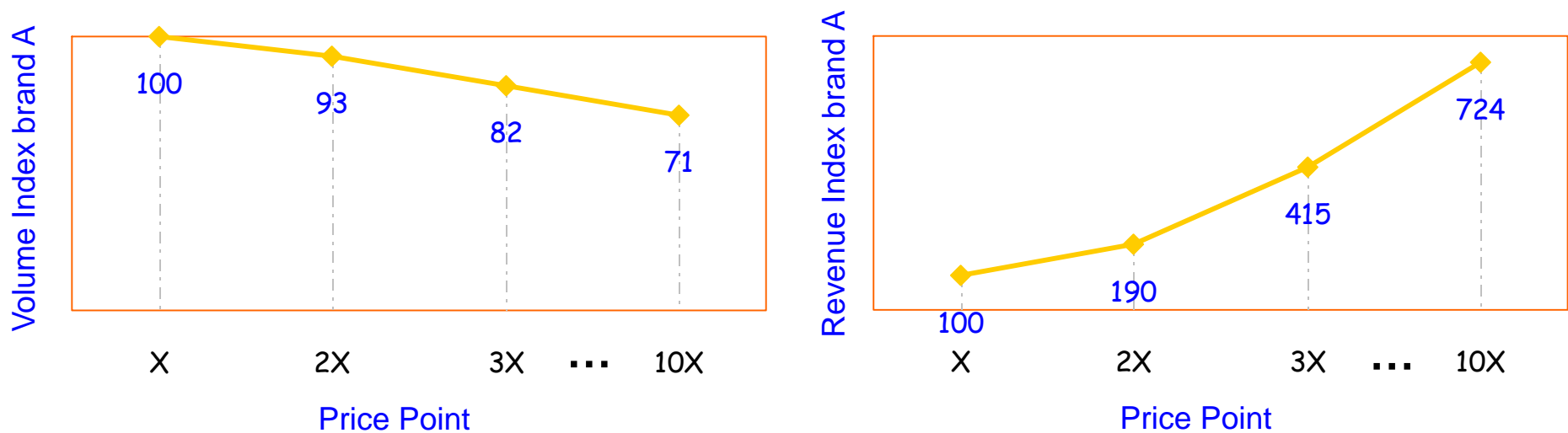
Preference (Brand A)



The 'raw' simulations



The initial market simulations showed a 29% drop in volume with a 900% price increase for the client brand (the lead brand in the category)



How can such a large increase in price not result in huge volume drops, especially in a price sensitive market?



In a category with not too many strong brands, consumers have no choice but to stick to their current brand – i.e. preference not likely to change despite increase in price.



But CBC is based on share of preference, so not sensitive enough.



What are we missing out??



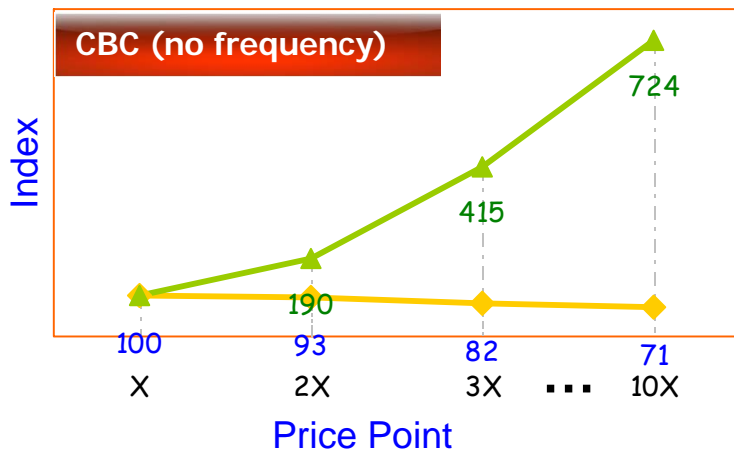
In a low unit cost and frequent purchase category, frequency must also be accounted for, in order to understand how a brand would respond to price increase.



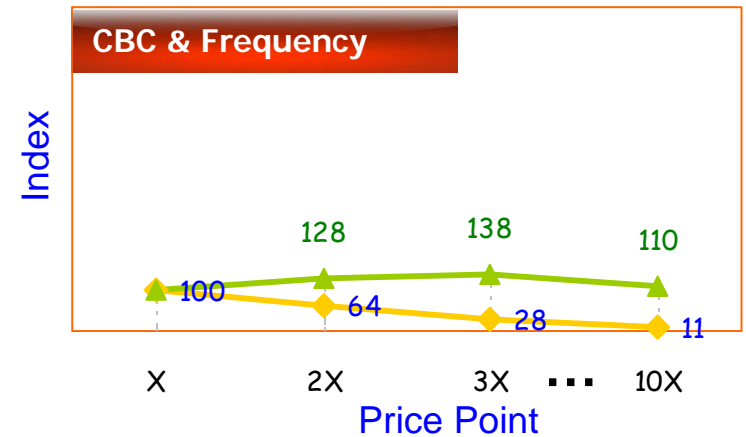
Hence, frequency of purchase at various price points was built into the model as well (frequency of purchase derived from fixed price scenarios).

More realistic results

Combining the share of preference with purchase frequency produced much more realistic estimates of volume and revenue impact at various price points.



◆ Volume Index
▲ Revenue Index



Instead of the 10X price point, we found that a 2X price point better optimizes both Volume and Revenue.

Our key challenge was to arrive at realistic response to price increase in a low unit price category, where the client's brand was a market leader.



CBC showed that a 900% increase in price only led to 29% drop in volume with a seven fold increase in revenue - for a market leader with more than 70%+ share of the market, this could have been an attractive proposition. However, once we factored in frequency of purchase at various price points the picture changed dramatically.



Going beyond the standard CBC and incorporating frequency of purchase into the modeling helped us to predict the impact of price increases more realistically. Client now planning to go ahead with the proposed 2X price increase.