

PRICING ADVISOR™

Pricing Research Amid Disruption: Is Now the Right Time?

Now, more than ever, brands that are maintaining a competitive edge have adopted an agile approach to pricing research. They have shifted their insights strategy to keep a finger on the pulse of consumer behavior now and in the near future, as the author explains. Joyce van Heeswijk is a Research Director for SKIM, a global insights agency specializing in decision behavior. With more than a decade of experience working with Fast-Moving Consumer Goods clients, she enjoys providing a wide variety of insights to clients in the areas of communications, innovation and strategic pricing decisions. Contact her at skimgroup.com.



by Joyce van Heeswijk

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The current crisis has triggered many changes in consumer behavior. Some of these behavioral shifts are obvious: for example, the acceleration of online shopping. While others, such as the impact on price sensitivity, are less certain. This begs the question, is now the time to invest in pricing research?

The challenge right now lies in balancing tactical COVID-specific decisions with long-term strategic ones. To inform these decisions, assumptions could be made about whether and which consumer behaviors are permanent and which are transient. It's tempting to base these decisions on assumptions from historical data and experience. However, looking back will only get you so far, and it is important to add recent data points wherever possible before making decisions.

Consumer price sensitivity holds steady for CPG brands

SKIM recently conducted a re-run of pre-COVID pricing research to determine the differences in consumer preferences and price sensitivities before and during the crisis. We re-fielded large pricing studies in Europe and the United States. The newly fielded studies explored changing price elasticities and sought to answer four questions:

- Have price elasticities changed during COVID-19 and how?
- Are consumers making purchase decisions differently now?
- How does price sensitivity vary across categories and countries?
- Should brands conduct pricing research now or delay?

The meta-analysis combined eight pricing studies across CPG (consum-

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er packaged goods) categories covering 87 consumables and non-consumable brands in the U.S. and Europe. The original studies were fielded between December 2019 and March 7, 2020, before the COVID crisis shut down economies and triggered shelter-in-place policies throughout Europe and North America. The re-fielded studies were conducted during the first three weeks of April 2020 using SKIM's Virtual Shelf research solution. A choice-based-conjoint research methodology was used for the analysis. The full results are available at skimgroup.com/covid.

The April 2020 research revealed:

- **A 32% decline in sensitivity for brands dominant in larger packages.** Although overall consumer price sensitivity remains consistent across categories (pre-COVID-19 vs. April 2020), consumers are less sensitive to price changes in large packs and more sensitive to price changes in smaller ones.

- **A 99% correlation between the**

base cases: Shoppers tend to remain loyal to favored brands. Of course, brand loyalty during the crisis assumes that products are available on the shelf. As long as the products are available, consumers' brand preferences remained fairly consistent up to this point.

- **13% relative growth of larger packages:** There is a consistent shift to larger pack sizes across categories. We found the shift to larger packs to be even more prominent in Europe, especially in the dairy category.

A data-driven approach to decision making

You may be asking yourself, if I conduct pricing or portfolio research now, can I rely on the results in this rapidly evolving market?

In times of uncertainty, "what if" and competitive scenarios should be overlaid with as many data sources as possible. A wide data set, such as sales data,

brand trackers, marketing mix models, expert views, and consumer insights will give you the most reliable insights during times when everything in reach seems unreliable.

COVID-19 presents us with a situation where consumer purchasing habits have been disrupted and sales data alone is unreliable fodder for forecasting-models, thanks to activities such as hoarding and disrupted shopping frequencies. We're more often operating outside of known parameters and thus face more uncertainty.

For example, in "normal" times, trended sales data combined with information on promo pressure can provide a robust indication of what to expect from pricing changes in-store or online. When known parameters get blown up, it helps to supplement existing data with shopper research into triggers such as an innovation, new promotions or new prices.

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Three tips for making pricing decisions during COVID-19

Here are three research-based recommendations for making better pricing decisions now:

1. Collect information from a variety of “experts.” A variety of external sources should inform the pricing scenarios you are considering. Collect insights from consulting houses, trade organizations, and industry experts to establish a solid contextual foundation.

2. Zoom in on unexplained model variations. Determine which variations in your models are understood, and seek to understand unexplained variations. Consider reaching out to shoppers directly to get a better understanding of their behavior in this new context. You can keep it as simple as doing interviews with a few customers or set up more extensive research.

3. Keep feeding your scenarios with data. Before COVID-19, you could safely base decisions on sales data supplemented with a single piece of pricing research to fill the knowledge gaps, but as consumer preferences continue to shift, the shelf life of old pricing research is now much shorter. Consumer consumption and their “willingness to pay” for certain products and services are changing from one day to the next depending on lockdown



restrictions, travel bans, news, and economic conditions.

Economic volatility is also making it harder to justify investments in pricing or portfolio research. Our research shows that, in most cases, consumer preferences and purchase behaviors have remained fairly consistent before and during COVID-19, so it may be tempting to avoid investing in primary research right now. That said, new research can reveal valuable and critical insights that are useful in the current environment. For example, the combination of increased home-bound consumption and widespread economic insecurity has big implications for manufacturers, such as those that don't offer

large pack sizes.

Key takeaway for pricing professionals

Now, more than ever, brands that are maintaining a competitive edge have adopted an agile approach to pricing research. They have shifted their insights strategy to keep a finger on the pulse of consumer behavior now and in the near future.

In many cases, they are re-running the same pricing study in multiple waves. By comparing the same conjoint analysis conducted during COVID and again in three and nine months, we can track changes and adapt a pricing strategy for our dynamic and uncertain market. ❖



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