

what's ON!



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Does your Brand deliver the value?

It's not the price tag they're looking at - but the value tag

Econometric value modelling is a powerful tool to help marketing executives maximize the yield and brand equity over time.

In our [previous issue](#) we looked at the price elasticity of demand, the brand value perception and the relationship between them. The brand perception is reflected in the brand attitude that influences the purchase behaviour. Consumer behaviour is fairly consistent, particularly if linked to established consumption patterns. Attitudes provide a value based framework to help the consumer navigate efficiently through alternatives and evaluate the brand with the highest perceived value to them. While behaviour based insights tell us *what* consumers do, attitude based insights tell us *why* they're doing it.

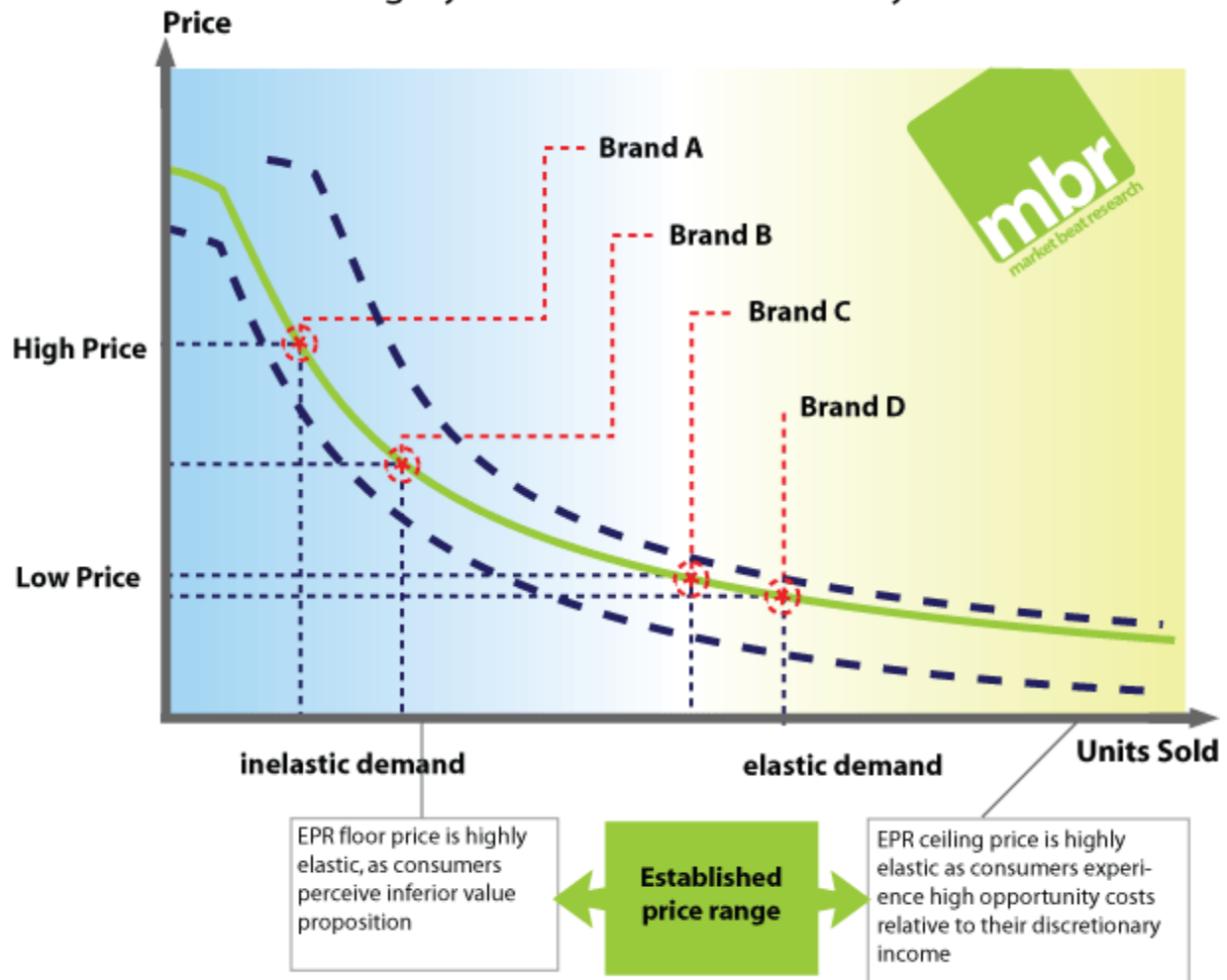
Today, we will combine both methods to analyse which brand attributes deliver the most value to customers and how we can use this insight to increase their value perception. Econometric value modelling is a consumer focused model to evaluate and optimise the performance of the marketing mix and strategically position the brand on the consumer's value map. This value map puts the consumer on centre stage, allowing us to see through their eyes how the purchase decision transpires. It will allow us to forecast the yield and long term brand equity more accurately and proactively identify new market opportunities.

Our featured article today is '[A Pun Is Its Own Reword](#)' by [Dr. Max Sutherland](#), author of "Advertising & the mind of the consumer"

The price elasticity of demand (PED)

PED is an economic measure of the price sensitivity of consumers that is based on their actual purchase behaviour. PED can be measured at the category level (all brands) and at the individual brand level. The downward sloping demand curve implies that fewer consumers are willing to buy at higher prices. The slope of the curve represents the price elasticity of the demand at that price point, i.e. the response of consumers to changes in the price. Within the consumer's established price range (EPR) the demand can be elastic (price sensitive), unitary (neutral) or inelastic (not sensitive). Outside this range consumers leave their comfort zones and the demand becomes quickly elastic, as they perceive inferior value (EPR floor) or face high opportunity costs relative to their disposable income (EPR ceiling).

Category Demand & Price Elasticity



Source: Cat-Scan™ 2006 Market Beat Research. All rights reserved.

For instance, visualise the category above with the four brands A to D. 'D' is clearly the most elastic one. Brand C is hard to differentiate from 'D', a "me too" brand. Both brands are close substitutes and compete mainly on price. They appeal to the most price sensitive buyers in this category. Just a slight increase in price will motivate these buyers to look for a better deal.

Brand A, on the other side of the spectrum, is the most inelastic one in the category. Targeting and brand personalisation are more important to these consumers than price.

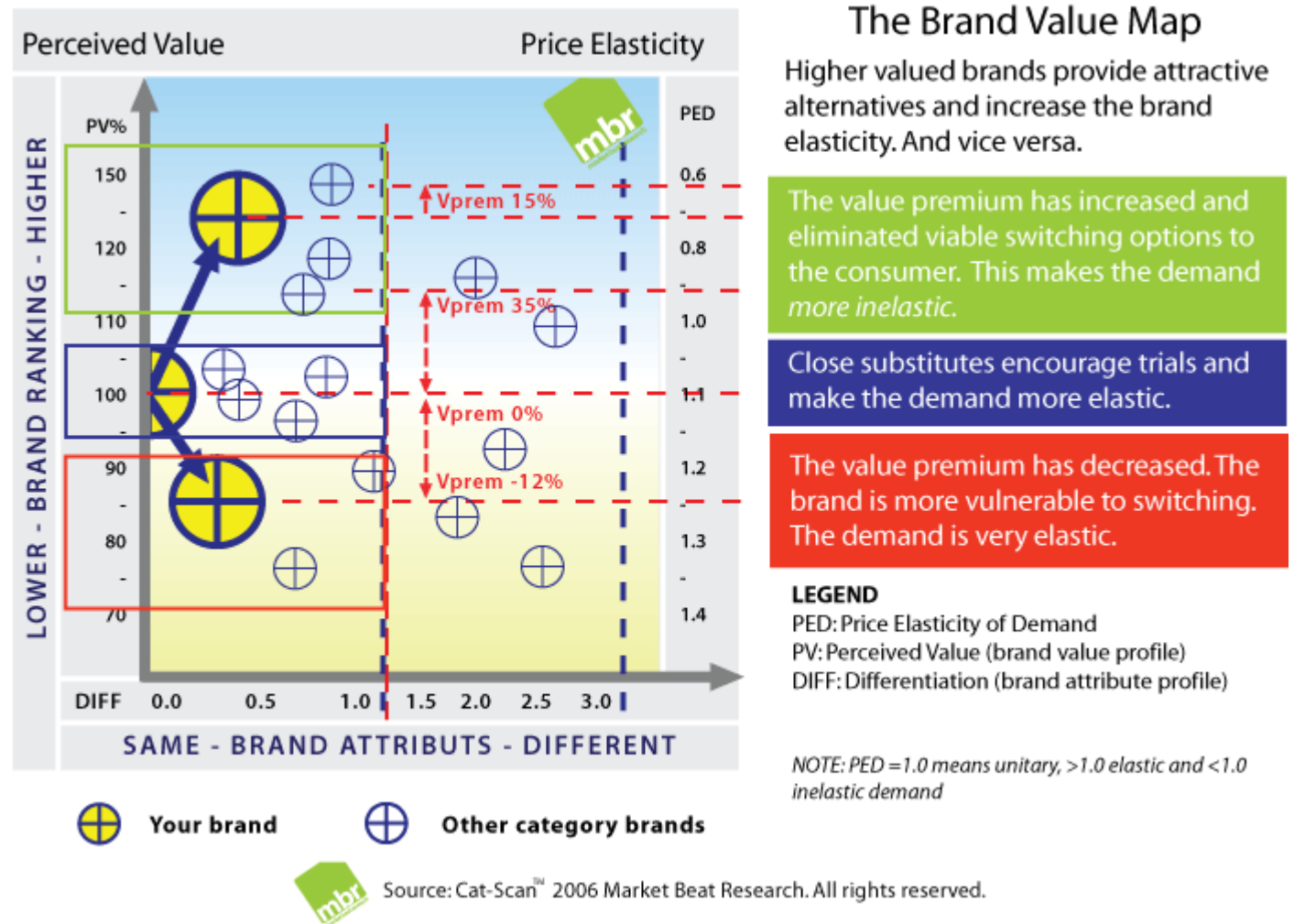
Brand A can maximise its revenues by increasing its price with a slight loss in market share. Brand C and D can increase their revenues and market share (units sold) by lowering the price, at the expense of the profit margin. Brand B is stuck in unitary elasticity. Any change in price would be offset by an equal change in units sold, with no impact on revenues. To grow its brand within the category it would have to move out of the unitary zone, into more elastic or inelastic territory.

The brand value perception (BVP)

Depending on the importance of the brand to the consumer (high or low impact) the purchase decision involves typically less than seven attributes¹ (brand characteristics), one of which is the price. Within the EPR, the price is seldom the most important attribute of the marketing mix. Individual consumers perceive more or less value from each brand attribute. The perceived brand value represents the sum of all attribute values, weighted by the relative importance to the consumer.

A set of unique brand attributes and their relative importance form a cluster. Similar clusters can be combined in to a target market. The narrower the targeting focus, the more appealing the brand becomes to those consumers, at the

expense of increasingly smaller market niches. The following chart illustrates the relationship between value perception and purchase behaviour:



Ultimately, marketers can increase the value perception of their brand in two ways: by targeting, i.e. emphasise the most important brand attributes to the targeted consumer group or, effect an increase in the ratings of the individual attributes, or both. Any increase in relevance or value will result in a corresponding increase in the brand value perception. Price, as one of the brand attributes, is but one way to impact that value. Lowering the price of a consumable, for example, will increase its value to the consumer but make the brand more elastic, and vice versa. Increasing the value through improved targeting by the other 3Ps of the marketing mix would further differentiate the brand and make its demand more inelastic. The effectiveness of the marketing mix and the targeting focus are critical to maximising the yield and long-term brand equity, given the competitive structure of the category.

Consumers buy value - not price

In fact, the perceived value is a direct measure of the "quality" of targeting the brand to a particular consumer group. This includes all physical, psychological and economic attributes, as well as the price. Connecting the perception based attitude measures with the behaviour based elasticity measures we can now use the model to anticipate and forecast the purchase behaviour. Clearly, increasing the value of the brand will sway their purchase decision in your favour and ultimately lower the marketing costs by increasing brand loyalty.

Putting it together

Econometric value modelling looks at the brand performance from the customer's perspective. It combines actual purchase behaviour information from the POS with perception based brand attitudes from primary field research - to tell us not only *what* but *why* consumers behave the way they do.

Attitudes provide a value based evaluation framework to the consumer, allowing him or her to navigate efficiently through the considered options (top-of-mind category brands) and arrive at the 'best' purchase decision at that time.

Particularly with established consumption patterns the category consumption behaviour is highly consistent (not necessarily with the same brand).

The bottom line

Econometric value modelling is a powerful marketing tool to improve the relative performance of the brand in its category. For each target market, it tracks the value profile and architecture of the brand at the attribute level¹. It recommends specific changes the marketing mix and identifies new value plays in the category that will drive the first-mover advantage to your bottom line.

Marketing insights:

Your MBR Team

Notes:

- 1) Cat Scan - Brand Tracking research, using CAPI methodology on the path-to-purchase in Australian shopping centres and online.
- 2) "Advertising and the mind of the consumer ", Dr. Max Sutherland & Alice K. Silvester, Allen & Unwin 2000, Australia.

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