

# Price Elasticity Study Example

## Gardening Products Industry

January 2010

# What is a Price Elasticity Study?

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Deciding how to price products and services is difficult due to the many factors involved. Price elasticity research can help you determine an optimal price range for your product and gauge possible consumer reactions to price changes.

Questions often answered through price elasticity research:

- At what price can we increase market share for our product?
- At what price can we maximize revenue/profit margin?
- How will a price change affect consumer perceptions of our brand?

# Methodology

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The sample for the **ABC Brand Price Elasticity Study** was randomly drawn from a regional list of Adults 35-64. 600 Interviews were conducted between XXXXX XX, 2009 and XXXXXX XX, 2009.

The participants were qualified by:

- Correct Geography*
- Completing the Survey*
- Unique Respondent (no duplication of email addresses)*
- Single-family homeowner*
- Tends to a lawn and/or garden area*
- Has purchased a certain type of gardening product in the last 6 months*
- Is the decision maker for which gardening product(s) to purchase*

The participants were then segmented by:

*Gender*

- *Male*
- *Female*

*Age*

- *35 - 44*
- *45 - 54*
- *55 - 64*

*Brands Purchased*

- *Brand A*
- *Brand B*
- *Brand C*
- *Brand D*

# Data Analysis

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Once collected, data from the survey were analyzed using the vanWestendorp Price Sensitivity model.

The van Westendorp Price Sensitivity Model is based on 4 questions of consumers:

1. At what price do you begin to think of the product as so expensive that you would not consider buying it?  
For plotting purposes, this question is referred to as Too Expensive.

2. At what price do you begin to think of the product as so inexpensive that you would feel that the quality cannot be very good?

For plotting purposes, this question is referred to as Too Cheap.

3. At what price do you think the product is a bargain – a great buy for the money?

For plotting purposes, this question is referred to as Bargain.

4. At what price do you think that the product is starting to get expensive, not so expensive that it is out of the question, but you would have to give some thought to buying it?

For plotting purposes, this question is referred to as Expensive.

Responses to the four key vanWestendorp price questions are then plotted against each other on the same graph.

# Data Analysis

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Plotting these cumulative response curves on the same graph reveals four critical price parameters...

## The Point of Marginal Cheapness (PMC)

The price at which the same proportion of consumers find the price to be Too Cheap as find it Expensive. Pricing below this point is not advised. The PPM is the lower bound of the Range of Competitive Prices.

## The Point of Marginal Expensiveness (PME)

The price at which the same proportion of consumers find the price to be Too Expensive as find it to be a Bargain. Pricing above this point is not advised. The PME is the upper bound of the Range of Competitive Prices.

## The Optimum Price Point (OPP)

The price at which the same proportion of consumers find the price to be Too Cheap as find it Too Expensive. Frequently around the average price for the category.

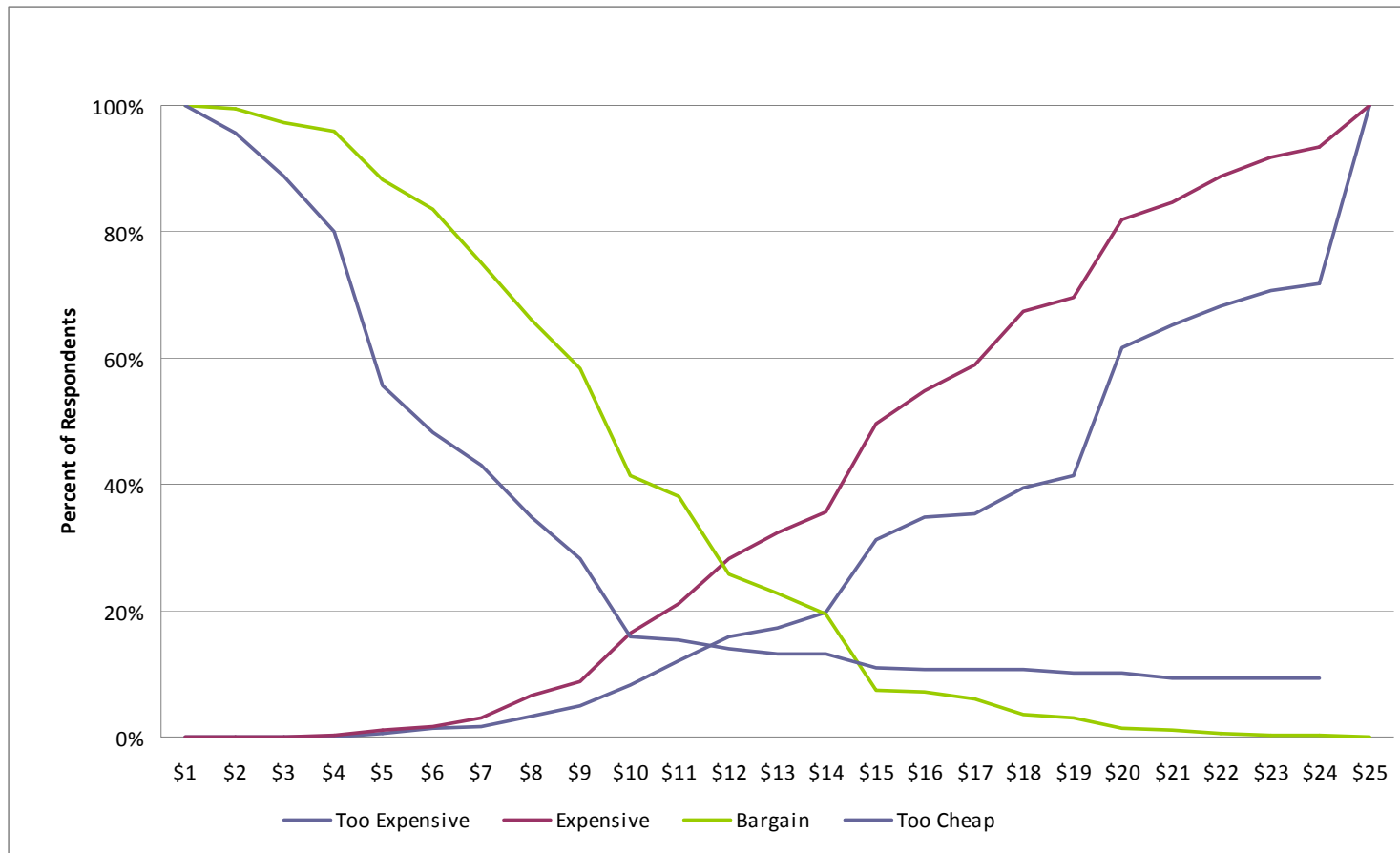
## The Indifference Price Point (IPP)

The price at which the same proportion of consumers find the price to be a Bargain as find it Expensive. Can be an average price for premium brands within the category.

# Key Findings

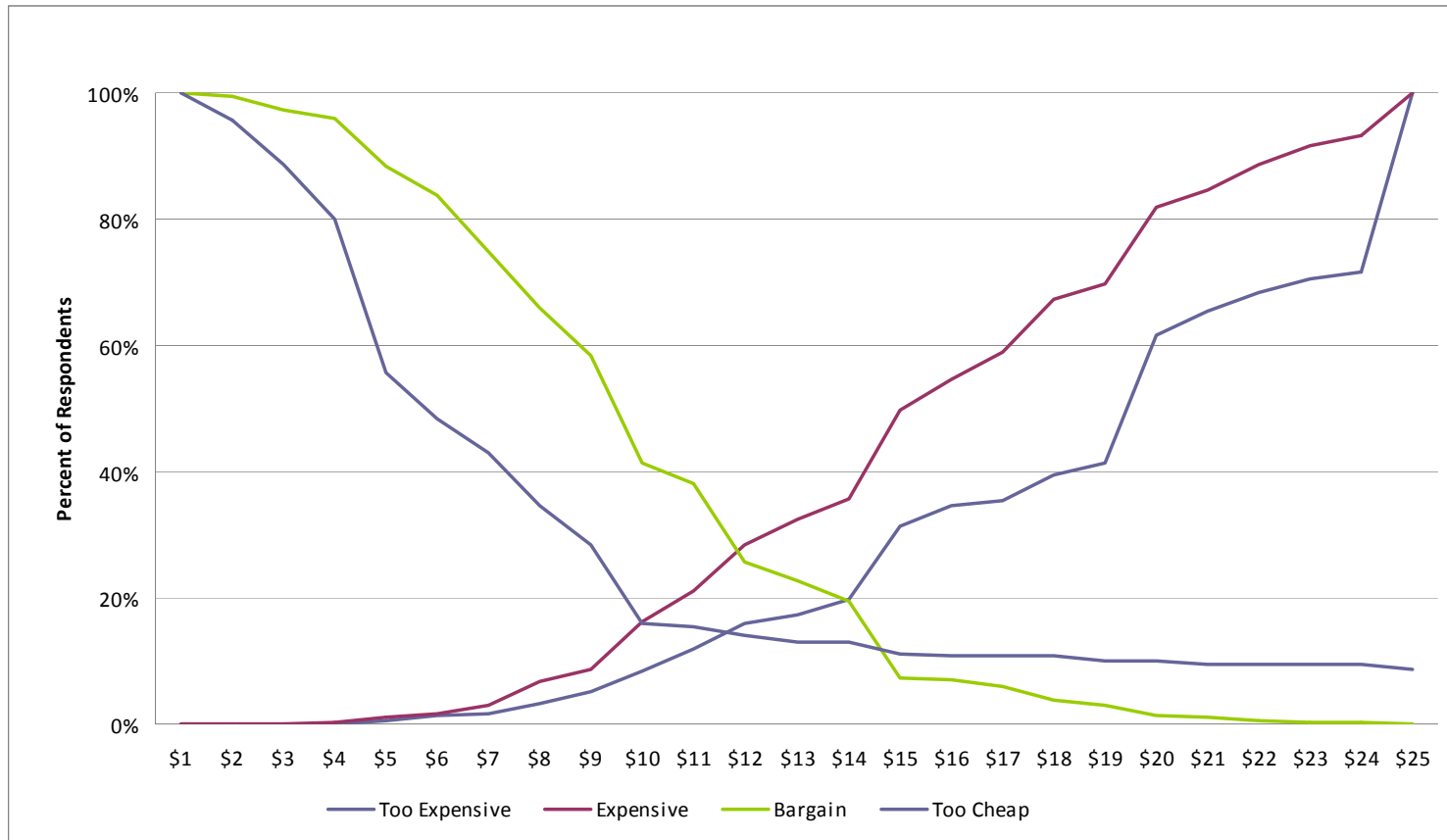
# Price Elasticity – Product A

The range of competitive prices for Product A would fall between \$9.80 and \$14.10 (between the Point of Marginal Cheapness (PMC) and the Point of Marginal Expensiveness (PME)). The Optimum Price Point (OPP) would be \$9.90. The Indifference Price Point (IPP) would be \$12.00.



# Price Elasticity – Product C

The range of competitive prices for Product C would fall between \$9.30 and \$13.10 (between the Point of Marginal Cheapness (PMC) and the Point of Marginal Expensiveness (PME)). The Optimum Price Point (OPP) would be \$9.60. The Indifference Price Point (IPP) would be \$11.50.



# Conclusions

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*The most popular brand is Brand A (68%) and the most frequently mentioned other product was Brand C.*

*In terms of average price paid for products, Brand A was on the higher end with an average price of \$17.00 whereas the lowest average price paid was for Brand D, \$12.17.*

*According to the results of the price sensitivity model, the optimum prices for each of Brand ABC's products are:*

*Product A - \$9.90*

*Product B - \$9.90*

*Product C - \$9.60*

*Product D - \$9.80*