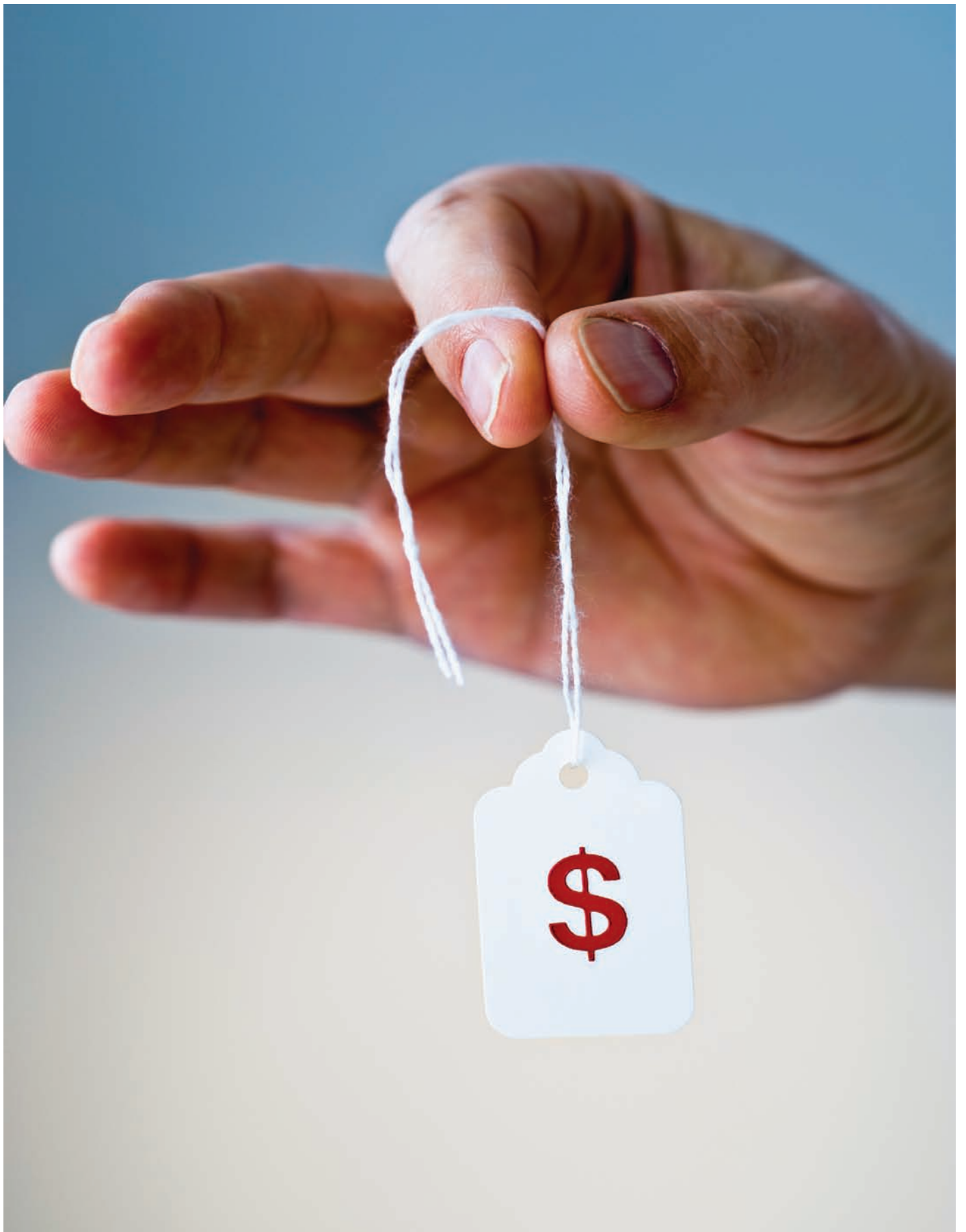


# What's Your Brand's Pricing Power?

When conjoint isn't an option, brand valence questions come to the rescue

By Paul Riedesel

Product managers often face the practical question of how much “pricing power” their brand has. While many factors go into pricing decisions, it is helpful to know the base value of your brand relative to others. In today's stressed economy, pricing at a premium can quickly become a sales disaster if the underlying brand value is absent. ■ Many—though not all—researchers regard conjoint methods as the best single tool for measuring brand value and hence, pricing power. Insofar as conjoint studies include both brand and price as variables, brand utility can be interpreted as a metric of pricing power. Conjoint methods are practically required for major pricing decisions regarding major brands. The business risks are too great not to employ the best research techniques available. ■ Not every product manager works on major brands with major budgets, nor do all pricing decisions entail existential risks. Some situations may not warrant a dedicated conjoint survey. The question at hand is whether



## Executive Summary

**Conjoint-derived utility coefficients are arguably the best measures of the relative pricing power of brands.** But what happens when conjoint research is not an option? This article reports a test of six potential surrogate measures in three product categories and concludes that a brand valence question is the most effective as a predictor of pricing power. Brand valence scores are useful for business decisions where the risk does not justify more complex and more costly research.

suitable surrogate measures are available that correlate well with conjoint-based brand utilities and can also be collected quickly and easily in a survey. Perfection is not the goal of these tests; usefulness under the constraint of limited resources is.

### In Search of a Surrogate

The “ideal” surrogate measure of pricing power would be a question that could be asked about the relevant brands in a straightforward fashion without requiring special software

Abbreviation	Question Text	Scaling
Pay More	How strongly do you agree or disagree that it is worth paying a little more for <category product> made by <company>?	Grid, verbal categories only: Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree
Familiarity	How familiar do you feel with each of these brands of <category>?	Grid, verbal categories only: Not at all familiar Slightly familiar Fairly familiar Very familiar
Quality	How would you describe the quality of these brands of <category>?	Grid, five levels with these verbal labels: (1 implied) Very low quality (3 implied) Average quality (5 implied) Very high quality
Consideration	How strongly would you consider these brands <for occasion/need>?	Grid, verbal categories only: Would Definitely Not Consider Would Probably Not Consider May or May Not Consider Would Probably Consider Would Definitely Consider
Velocity	What is your sense of how these brands of <category> are doing?	Grid, verbal categories only: On their way down with nothing going for them On their way down with little going for them Holding their ground On their way up with a few things going for them On their way up with a lot going for them
Valence	What is your overall impression of <brand/product>?	11-point horizontal scale with explicit numeric values from -5 to +5 with these verbal labels: -5 Very Unfavorable 0 Neutral +5 Very Favorable

or specialized analysis. This study looked at the conventional marketing research questions related to brand equity listed in Figure 1 below.

In separate online surveys in November 2010 with 200 qualified consumers each for mid-priced hotels, premium lunchmeat and netbook computers, respondents completed a choice-based conjoint (i.e., discrete choice) experiment involving five brands, price and two other relevant attributes.

Brand utilities were derived through Sawtooth Software’s CBC-HB module and then rescaled within each respondent to a range of 0-100. The price effect alone was constrained to be linear and negative. Respondents then rated the five brands on the six “surrogate” measures mentioned earlier. (See Figure 2 on page 17.)

Not only were brand and price the most important attributes, they were quite similar in their effects for all three product categories.

We tested the ability of the potential surrogates to predict brand utility scores with analysis of variance. After collapsing the valence scale to five categories (negative values being rare), all potential surrogates had either four or five levels. Data across all 200 respondents and five brands were collapsed.

Did the test meet the standard of *ceteris paribus*? In some respects, no, as the scales did not have exactly the same number of points. Not all choice categories had a verbal label. Only on the valence question did consumers see explicit numeric scale values, and there were originally 11 of them.

On the other hand, the purpose was to test metrics that are already rattling around our collective toolbox and that are known (to some degree) by the consumers of research.

### There Is a Winner

The eta-square ( $\eta^2$ ) statistic was chosen to compare the ability of the potential surrogates to predict the conjoint-derived brand utility coefficients. In two of the three product categories, the brand valence measure outperformed the others. For the third (netbook computers), the purchase consideration question had a higher eta-square, but valence was not far behind. (See Figure 3 on page 18.)

A shortcoming of any monadic rating technique is that respondents can rate all brands equally high. Choice questions of any kind overcome this problem, though at the cost of more intense data collection and analysis. This



study did not attempt to evaluate simple rank-ordering techniques, though the question remains: Rank-ordered on what? Such an investigation would be worthwhile.

Take note that the “pay more” metric was average, at best, in predicting conjoint-based brand utility scores. This was an interesting finding indeed because it would seem to have high face validity vis-à-vis the construct of interest. In the conjoint estimation, a brand could only achieve a high utility score if it was preferred in spite of a higher price than competitive brands; it is hard to argue that this does not constitute pricing power. The resulting utility coefficients are the product of multiple observed choices rather than speculation about what the consumer/respondent might do in the future.

The trusty, old purchase consideration scale should not be mistaken as a surrogate for pricing power. Whatever its genesis—does anyone really know?—it measures something other than the intrinsic value of a brand.

### Why Valence?

Evidence trumps all, but a little theory is good, too. Action Marketing Research was attracted to this mode of scaling in light of modern neuroscience, which proposes an important role for noncognitive, more-visceral forces in consumer behavior.

Experiences with the environment that evoke strongly positive or strongly negative feelings are more likely to be remembered and to then play a part in future behavior. Consumers’ senses are bombarded constantly with external stimuli, and they cannot begin to cogitate over more than a small proportion of them.

The nonconscious brain saves us from cognitive paralysis by ignoring most of the stimuli and tagging the others with affective markers of some kind, the latter of which may or may not ever reach our consciousness.

The memories evoked by the Holiday Inn sign on one side of the highway versus the Hampton Inn sign on the other

**Figure 2: Conjoint Design**

	Hotels	Lunchmeat	Netbooks
<b>Brands</b>	Holiday Inn Comfort Inn Best Western Hampton Inn Days Inn	Hormel Natural Choice Oscar Mayer John Morrell Healthy Ones Hillshire Farm	ASUS Hewlett-Packard Toshiba Lenovo MacBook
<b>Price Range</b>	\$69 to \$109	\$3.19 to \$4.99	\$299 to \$699
<b>Additional variable 1</b>	Swimming Pool: Yes No	(Descriptor): Honey Ham Smoked Ham No Preservatives	Screen Size: 10.1” 12.5” 13.3”
<b>Additional variable 2</b>	Restaurant on Site: Yes No	Package: Reusable Tub Resealable Plastic	Processor Speed: 1.7 GHz 2.2 GHz 2.7 GHz

**Figure 3: Explained Variance ( $\eta^2$ ) in Brand Utility Coefficients**

Predictor	Mid-priced Hotels	Premium Lunchmeat	Netbook Computers
Pay More (5 levels)	0.162	0.178	0.132
Familiarity (4 levels)	0.098	0.186	0.124
Quality (5 levels)	0.195	0.167	0.158
Consideration (5 levels)	0.166	0.182	0.209
Velocity (5 levels)	0.132	0.094	0.123
Valence (collapsed to 5 levels)	0.224	0.396	0.186

200 respondents and five brands per category (pooled)

side can easily drive the decision to turn left or turn right with little or no mental calculus.

Unfortunately, many of the common research techniques and the everyday language of marketers assume a much more rational model of consumer decision-making: Researchers ask a question; the respondent plugs values into his mental calculator and provides an answer. Few would completely forsake the venerable five-point purchase intent scale, but it requires the respondent to project some future action that he may have not even thought about until that minute. What exactly is being measured?

What makes the valence scale different is that it is more isomorphic with how the human brain (or mind, if you prefer) actually works. The words “Holiday Inn” do not naturally evoke a “4” on Quality, a “Probably Consider” or a “3” on Worth Paying More For. What they can evoke are visceral feelings that the conscious, cognitive mind can read to some extent. Expressing those feelings on a numeric scale is an artifice of sorts, but a seemingly more natural one when the choices offered are gradations of positive or negative feelings.

The term “valence” has a specific meaning in chemistry having to do with the balance of the protons (positive charge) and the electrons (negative charge) of a molecule. It also appears in the psychological literature in the sense implied here, of attraction or its opposite. It is fairly intuitive to survey respondents as well. Everyday language is replete with the idea of a negative to positive continuum with neutrality in the middle. This adaptation uses five negative and five positive degrees, but that is hardly set in stone.

One could object that the logical leap from visceral “favorability” to “I’ll-pay-more-for-that” is large. Perhaps, but most research shows the Vulcan market segment to be small. Earthlings more often buy what they know, are comfort-

able with and otherwise feel good about. If those brands cost a little more, that feels OK.

We are not oblivious to the paradoxical implication that our supposed gold standard for brand value—conjoint utility—is, in itself, hyperrational. We leave that puzzle for better theorists to solve.

What we are confident of is that valence scaling is a promising approach to tapping consumer feelings that in some fashion or another shape their behavior in the marketplace, including their responses to price differentials among brands.

### A Closer Look

When product managers need some measure of their brand’s pricing power compared to that of their competitors, but cannot afford a dedicated conjoint analysis, it behooves them to ask the brand valence question as a surrogate.

Obviously, this measure cannot be used in the same way as true utility scores. It cannot provide a dollars-and-cents value estimate of pricing premiums or deficits. It cannot tell us if offering a certain feature will compensate for a weaker brand. It is a good “Plan B” for business decisions where the risk does not justify more complex and more costly research.

No aspersions are cast on the other measures tested here. Most have their role in understanding product and brand equity—they are just not as good at isolating the fundamental pricing power of the brand. The “worth paying more for” question could be an exception. Its explicit intent is to provide guidance on pricing, yet it is less effective than other measures at predicting pricing power!

While the goal of this research and this article was not to tout the valence type of scaling in general (e.g., explicit negative and positive scale values), these findings suggest that it does merit closer attention.

Better quantitative measures of what consumers feel could provide insight and predictions that complement measures of what they “think” or supposedly intend to do. Insofar as attraction and revulsion are universal psychological responses that do not need to be mediated through language, we are missing something by ignoring them.

We would welcome extensions of this research to further product categories and other potential surrogate measures such as rank orderings. In the meantime, these data support the use of brand valence scores as reasonable proxies for the ability of a brand to command a pricing differential.

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