



## Another Look at Price Sensitivity

Regular readers know that we are fond of conjoint modeling, but it is not always the best choice for assessing price sensitivity. In cooperation with one of our clients, we have developed a method that applies to a customer's overall purchasing habits.

The context is industrial purchasing where the customer may use products from several dozen discrete categories. Obviously, a standard trade-off study is out of the question. Our solution was to ask respondents some questions about a number of the categories in which they make purchases: What are their perceptions of the low and high end prices in that category? What price do they normally pay? At what price does this kind of product start to be expensive? Too expensive?

Working with raw dollar amounts would yield only statistical mush. Instead, we scale the low and high prices they quote to values of 0 to 100. Within that range, where is their expected price? Their "expensive" threshold? Their "too expensive" threshold? Since most answer questions about multiple categories, we have multiple indicators of where each person falls along the continuum from "cheap" to "price is no object."

Is this a nice normal curve? Not necessarily. We learn about the shape of the distribution and who falls where. We can't tell you the optimal price for a 30" digital jackhammer, but we can tell you a lot about the overall price sensitivity within a market segment. If you play at the premium end, about how many customers are actually available? Is one segment more (or less) price sensitive than another?

## Customer Satisfaction Research: Some Perspective

We choose to conduct very few customer satisfaction studies. In our opinion, they generate more heat than light, and other more decision-driven studies (tied to specific development or marketing decisions) are more actionable. Too often, a firm's executives are led to believe that a customer satisfaction study can provide everything a firm would want to know.

Customer satisfaction research is best at:

- \* Understanding how different customers view the company, which experiences drive satisfaction/intentions most, and where areas for improvement lie (using a baseline study)
- \* Staying in touch with the perceptions of the marketplace (by tracking key measures over time).

There is much evidence that customers who are more satisfied tend to buy more than those who are less satisfied, all else being equal. However, there is less success in using this kind of study to determine what changes to make specifically to increase satisfaction.

We believe it is beneficial for companies to apply customer satisfaction resources at a level that makes it possible to conduct focused studies (tied to a specific decision) when needed. These may or may not be tied to the outcome of a baseline or tracking study.

Finally, we find it ethically (and methodologically) dubious to use customer satisfaction research to reward and punish employees. This is especially egregious when those being evaluated can manipulate the ratings ("Give me all 5s on the follow-up survey, and I'll give you free oil changes for a year").

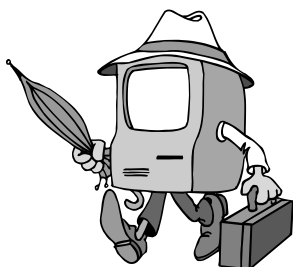
## Netnography!

The concept has been around for a while, but we just got wind of this intriguing new qualitative research method. "Netnography" is nicely described by Professor Robert Kozinets in the February 2002 issue of the *Journal of Marketing Research* (pp. 61-72). He defines it as a methodology "that adapts ethnographic research techniques to the study of cultures and communities that are emerging through computer-mediated communications."

The reality is that new forms of community have emerged within the Internet, and marketers would be remiss in not learning from them. Do you belong to any newsgroups, e-mail lists, or chat rooms? Millions do. And a "professional lurker" can gain rich insights into cultural trends, symbolism, and needs by systematically observing them.

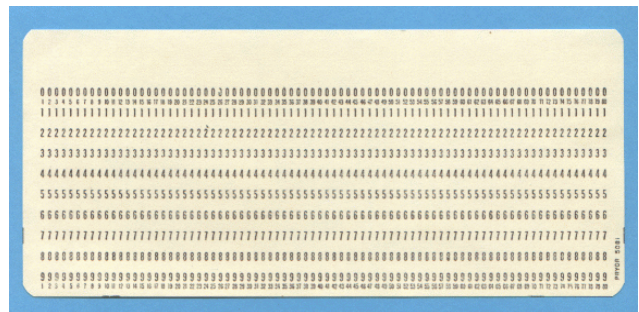
The article includes an example a netnographic study of coffee using various Internet sources. However, the researcher is limited by what consumers actually form communities around. Gourmet coffee is a richer subject than laundry detergent or cat litter.

Netnography is obviously a qualitative research discipline, and one we will happily leave to qualitative specialists. The disposition to pursue those fields is often different from those of a "net head", and neither may have much real training in rigorous ethnography. Those who succeed will be skilled cultural observers, have a solid marketing background, and be Internet savvy. The opportunities can only expand—and the commute to work is much shorter than to Bora Bora!



## Good Auld Days

Those of you who are younger than, say, 40 may never have seen a computer punch card (aka IBM card or Hollerith card).



For decades, scientists and researchers entrusted much of their quantitative data to these versatile cards. A keypunch device punched out little rectangles in the 80 columns and 12 possible rows (0-9 as shown, plus two more at the top of the card). The room-size computers of the day had input devices that could read them, both data and programming code. Woe be to the assistant who dropped, bent, or mutilated any cards!

Very nasty machines called card sorters were used to tabulate and crosstabulate surveys even before there were computers. How many cards with a 3 punch in column 17 also have a 4, 5, or 6 punch in column 18? Run that deck through again, Miss Hathaway.

Now they are fit for a museum. Of the 198 bazillion cards that IBM sold, the best estimate is that 2,855 still exist. And we have one of them in our underground vault.

The legacy of the Hollerith card is still with us, though. Have you ever wondered why interviewing software often defaults to 80-column output files? And what is a "multi-punch?" That means one column had several holes punched in it. Perfectly logical when you are squeezing all the data you want onto one card, but confusing when you want to write to a (modern) computer file. How can you have a 2, 3, and 11 on top of each other? On a punch card, you could.