

Pricing Research Bulletin

Pricing "A La Carte"

This Bulletin describes some of the uses of a relatively simple research technique which we call *A La Carte*. It is a tool for configuring optimal bundles of product features.

A La Carte is most relevant in categories where products are largely defined by the presence or level of tangible features, and where the company can offer only a small number of SKUs or bundles. This describes most durable goods and a variety of service offerings. A prerequisite, however, is an accurate estimate of the company's **cost** of producing and distributing each of those features.

Qualified respondents are presented with one or more lists or menus of **priced** feature options along with a (priced) base product. Their task is to design an ideal product for themselves, with clear attention to the total price.

- ✧ Retailers may dictate the price point. In these cases, we ask respondents to build an ideal product **with a price no more than this fixed price**. Sometimes they repeat this task for different price points. What we are trying to do is identify feature bundles that optimally meet consumer needs while also meeting the company's profitability requirements.
- ✧ Where consumer prices are freer to vary, we will invite respondents to design their ideal product with no set price target.

Data Collection

The collection of *A La Carte* data is not particularly complicated, though it is rarely feasible in a telephone interview. We have used both in-person, mall interviews and (pre-recruited!) mail surveys. Often, these tasks are part of a larger survey. Due to the nature of the task, it is helpful to provide the respondents with a calculator. In the case of mail surveys, sending a credit card-size calculator as a gratuity helps.

Analysis

Applying *A La Carte* to product design issues is a mixture of marketing science and skilled judgment. Some form of *k*-means cluster analysis is essential. The idea is to shake out several clusters of consumers who want similar bundles of product features (looking only at the frequency with which each feature was chosen by the full sample can be very misleading).

Where the price is more or less fixed in advance (e.g. by trade pressures), we will see several product options. The choice between them might be as simple as picking the largest consumer cluster. Alternatively, the company might offer two or three comparably priced bundles which span most consumer needs.

Where the total price is free to vary, we will begin by segmenting or clustering consumers first on the basis of how much they are willing to spend on an ideal product. Thereafter the analysis is about the same, though done independently for each price segment.

Limits

A La Carte is useful for many decisions, but it is not meant to make volume forecasts (best done once the offering is narrowed), nor does it attempt to measure "what people will pay" for certain features. That calls for other techniques. The pricing researcher needs many tools.



314 Clifton Avenue, Suite 200

Minneapolis, MN 55403

Phone: 612-879-9212

Fax: 612-879-9265

E-mail: action@action-research.com

Internet: <http://www.action-research.com>

Contact: Dr. Paul Riedesel, President

Janette Kihm, Senior Consultant