The Art of Effective Market Research for Pricing

by: Per Sjofors

In the realm of market research for pricing, avoiding common pitfalls is essential to deriving true value from the endeavor. The test for market research for pricing success lies in its ability to confidently guide companies toward improved pricing strategy, steady growth, and increased profitability. In this article, the author outlines ten common failures associated with pricing market research and provides best practices for both avoiding these pitfalls and also developing actionable, insightful research for your pricing operations. Per Sjofors, a.k.a. "The Price Whisperer," founded Sjofors & Partners and is a thought leader on using price for higher growth and profits. He can be reached at per@sjofors.com.

For experts in the field, market research for pricing entails a highly formal undertaking that encompasses the careful selection of a representative sample or a focus group, the formulation of well-constructed questions, the application of robust statistical techniques, and thorough tests of significance. In contrast, for those with a broader perspective, market research for pricing involves a less stringent process, often consisting of a few phone calls to important customers or salespeople, a brief conversation, and a general overall impression that may be as likely to be incorrect as it is to be accurate. Acknowledging this divergence in understanding, it becomes evident why the majority of market research and consulting falls short in achieving its primary goal: propelling the business towards new levels of sales and profitability.

Successful pricing research and market research in general entails a delicate equilibrium between costs and reliability, utilizing methodologies centered on precise inquiries that consistently reside at the core of the vendor-customer dynamic. These questions are challenging to address and remain pivotal factors influencing the critical choices a company must render regarding its marketing strategies, product and service offerings, promotional endeavors, responses to competition, and guidance provided to sales teams. The test for market research for pricing success lies in its ability to confidently guide companies toward improved pricing strategy, steady growth, and increased profitability.

However, market research frequently falls short of meeting this criterion. It frequently fails to gather relevant information and lacks the potency to instigate necessary transformations in marketing, sales, product management, and finance. This article explores why this failure happens, points out its ten most common components, and provides a checklist for CEOs and managers embarking on market research projects to ensure that their project will not be a failure.

Failure #1: Asking the Wrong Questions

Strategic pricing studies projects must address pivotal questions. These include:

1. The reasons behind customers' preference for products/services.
2. The motivations driving customers to choose competitors over you.
3. The prices customers are willing to pay for your offerings.
4. Services and options that would justify higher prices.
5. Determining the trade-offs customers are willing to make between benefits and price.
6. Finding the nuanced meanings of "quality," "service," and "reliability" specific to your market.
7. Assessing the expected and satisfactory levels of quality, service, and reliability.

Additionally, incorporating questions tailored to your unique circumstances is essential. General research catering to an entire industry often fails to drive progress since it overlooks your specific needs, questions and/or opportunities.

Failure #2: Targeting the Wrong Audience

As mentioned earlier, we touched upon instances of pricing research relying solely on a small group of favored customers or even salespeople to gather necessary market insights. While some pricing research plans are better structured than these cases, they still primarily focus on existing customers. However, we've discovered that frequently, it's those who don't purchase from your business or might not even be familiar with it who offer the most valuable perspectives.

When assembling a group to survey, it's essential to encompass

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a broader population, including current customers, potential clients, individuals who chose not to do business with you, and even those who might match your customer profile but are unaware of your company. This approach should encompass the entire decision-making landscape. For instance, if high-level executives ("C" level) make purchase decisions, the survey group must extend to all individuals involved in the decision-making process, including functional managers, financial decision-makers, purchasing agents if relevant, systems buyers, and strategic purchasers. Moreover, the survey system should track the background of each participant, enabling the segregation of market insights according to their roles in the purchasing process. Neglecting any of these aspects will result in a skewed and inaccurate portrayal of the gathered intelligence.

Failure #3: Neglecting Compensation for Respondents

One of the most frequent inquiries our company encounters revolves around how we manage to engage the right individuals, particularly in B2B research. These are the ones who hold decision-making authority, exert influence, serve as functional managers, or act as purchasing agents. The solution is rather straightforward: compensation. Overlooking compensation for survey respondents not only diminishes the survey's participant count, but more critically, it often fails to attract the correct individuals to partake in the survey.

Executives and decision-makers maintain busy schedules, and unless there's an incentive, they are unlikely to allocate the time required to complete a survey. Consequently, surveys that are conducted without offering compensation are prone to capturing input primarily from the wrong individuals, or, at the very least, their responses will unduly influence the result.

Failure #4: Relying on the Same Researchers Your Competitors Use

Opting for researchers who serve multiple companies within an industry might be detrimental. Such researchers often offer uniform information, analyses, and recommendations to all clients. In an era where differentiation is crucial, standard researchers lack the capacity to provide a competitive edge. Using the same researchers as competitors hampers your uniqueness and competitive edge.

Numerous industries witness the presence of research and consulting firms that have specialized in catering to as many companies within that sector as possible. These firms often offer identical information, analyses, and recommendations to all their clients. In an era where turning into a commodity poses a consistent threat to a company's profitability, relying on a researcher adhering to industry norms becomes an unfavorable choice. By virtue of their very nature, these researchers cannot provide a distinct competitive advantage. They are unable to uncover the distinctive value propositions that could propel your products and services ahead of your rivals.

Using the same researchers your competitors use is a fast train to commoditization, diminished competitiveness, reduced distinctiveness, and a weakened ability to differentiate your business apart from the competition.

Failure #5: Neglecting to Combine Quantitative and Qualitative Methods

Quantitative and qualitative research methods yield different insights that mutually complement each other. Quantitative surveys provide structured data on known factors like selection criteria, willingness to pay and value perceptions. Qualitative methods, like interviews and open-ended questions, offer unique perspectives and unexpected insights. Combining both approaches enables a fuller understanding of customer behavior and business growth drivers. Relying solely on quantitative data offers statistics but lacks momentum for growth. Similarly, depending solely on qualitative research offers direction but lacks substantial insight.

Failure #6: Revealing Company Identity

When respondents are aware that a survey is commissioned by a particular vendor, the interaction often transforms into a sales-oriented conversation. Their motivation shifts from assisting in enhancing products and services to negotiating for improved deals. This alteration prompts them to provide skewed, manipulated, or withheld information with the intention of leveraging it for better prices and deals. Conducting research anonymously is more challenging, as potential respondents might be hesitant to participate without knowing the identity of the recipient. (However, refer to Mistake #9 below.)

Failure #7: Presenting Findings Without Conclusions

Reports featuring raw data without analysis or conclusions

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provide minimal actionable insight. Businesses require synthesized information, practical recommendations, and action plans to effect change.

Failure #8: Presenting Conclusions Without Recommendations

Market research experts often lack the capacity to furnish coherent business recommendations. Their professional expertise lies in data, science, and numbers, rooted in statistical and technical prowess. Yet, a pivotal aspect of valuable market intelligence is understanding how to translate data into actionable insights. In our research, we distinguish ourselves by primarily being businesspeople (salespeople, executives) and then research professionals. Hence, while we present data accompanied by robust statistical processes and tests, we also possess the ability to guide companies on how to leverage the data into practical actions.

Failure #9: Presenting Recommendations Without Action Plans

In the current economy, both individuals and businesses face limited room for extra tasks. Consequently, even precise suggestions run the risk of being disregarded if they lack well-defined action plans. Therefore, research reports should encompass comprehensive action plans for executing the business modifications identified by the research. Collaborating with your company, these plans should be designed to align with existing workloads, other pressing tasks, and available resources. This strategic planning phase is pivotal for a successful project.

Failure #10: Failure to Take Action or to Change

This is the most significant failure. Typically, research projects furnish data, occasionally insights, and less frequently recommendations with potential actions. However, they rarely trigger the substantial changes that should be their standard for success. Blame doesn't lie with the company; it's the market research and consulting organization that falls short. They don't supply actionable suggestions or comprehensive action plans. Furthermore, they don't engage in follow-ups or assist the company in executing the recommendations effectively.

Conclusion

In the realm of market research for pricing, avoiding common pitfalls is essential to deriving true value from the endeavor. These pitfalls range from insufficiently diverse respondent groups to the absence of actionable insights and implementation plans. To maximize the impact of pricing research and willingness to pay, it's crucial to strike a balance between quantitative and qualitative approaches, refrain from revealing the research entity's identity to respondents, and offer not only findings but also conclusive recommendations alongside detailed action plans. This holistic approach ensures that market research for pricing transcends being a mere collection of data, transforming into a catalyst for informed decisions, strategic modifications, and tangible results.