



The **Strategy** Group

Turning Information into Insight

Consumer Promotion Effectiveness

The Situation

A major fast food company had any number of promotional strategies that they could employ when deciding to promote various sandwich items. For example, the sandwich could be included as part of an overall meal, (hamburger, fries and a Coke), and the entire meal discounted. The individual sandwich itself could be discounted. Another menu item, such as fries or a soda, could be offered for free in connection with the purchase of the sandwich. The promotional possibilities went on and on.

Our task was to identify the differences in effectiveness between each of the possible promotions. It was not enough to know, however, how our client's promotions performed in isolation from competition. Our client needed the ability to simulate a variety of different competitive situations and identify what promotional strategy was most effective when facing different competitive deal configurations.

What We Did And How We Did It

Actual in-store testing was, perhaps, the ideal test framework, however this option was not practical from a timing nor a cost standpoint, nor could competitive activity be controlled. What was needed was an experimental design that reflected a real world marketing environment and provided consumers with a set of realistic choices that they typically face when selecting a fast food restaurant.

Our recommendation was to employ a methodology known as Discrete Choice Modeling, a very powerful technique that we typically use in situations where consumers are faced with an array of competitive product choices and must choose one product from those offered.

The research process entails presenting the respondent with a series of fast food buying decisions presented within the context of competitive restaurant promotions. These decision sets are constructed from a master list of all the different promotion strategies we wish to evaluate. A partial listing for our client looked like this:

SANDWICH PROMOTION OPTIONS

- 1. Regular price (no promotion)**
- 2. Price discount on sandwich**
- 3. Free soda with sandwich purchase**
- 4. Discount on meal (sandwich, fries, soda)**
- 5. Free fries with sandwich purchase**

Similar promotional options were developed for competitive restaurants. Then, from this master list of restaurants and promotions, a series of restaurant "choice scenarios" was constructed. For example:

"At which fast food restaurant would you eat if you were offered the following choices?"

Scenario 1

- A Burger King hamburger for \$1.19**
- A Hardee's hamburger with free french fries**
- A McDonald's hamburger with Coke and fries for \$1.99**
- A Wendy's hamburger at the regular price**
- Any other fast food restaurant burger at regular price**

Scenario 2

- A Burger King burger with a free soda**
- A Hardee's burger with a cents off coupon**
- A McDonald's burger at the regular price**
- A Wendy's burger fries and Coke for \$1.69**
- Any other fast food restaurant burger at regular price**

The Results

By analyzing the way consumer choices vary depending on the promotions they are presented with, it is possible to make inferences about how different promotions effect their behavior and to what extent.

The Strategy Group's Discrete Choice Model analytic technique solves for values for each restaurant's promotions that best predict what choices the consumer will make when presented with a given buying decision. With this information in hand, it is possible to simulate the result of any promotional situation of interest.

In the promotional situation depicted below, our client's "meal discount" promotion is the most effective counter strategy to McDonald's "free fries", Burger King's "meal discount", Hardee's "free soda" and Wendy's "cents off coupon".

ESTIMATED MARKET SHARES

	<u>CLIENT PROMOTION</u>			
	<u>Regular Price</u>	<u>Sandwich Discount</u>	<u>Meal Discount</u>	<u>Free Fries</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Client's Share	5	7	13	10
McDonald's free fries	45	43	41	45
Burger King discount	20	25	18	19
Hardee's free soda	12	10	11	10
Wendy's coupon	18	15	17	16

The Discrete Choice Model technique is applicable to a wide variety of marketing situations where the prediction of consumer choice is the fundamental question to be answered.