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W241 Essay 2

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Product Promotions/Pricing To Mitigate Product Harm Crisis

Product Harm crisis is a discrete event in which product is found to be defective and therefore dangerous to at least part of the product's customer base (Cleeren et al., 2017). Incidents involving Firestone Tire (2000), Kraft Peanut Butter (2007), Mattel (2007), Domino's Pizza (2009), Toyota (2010), and Volkswagen (2015)[1]. Companies utilize various strategies to mitigate the effects of such events., these include advertising, promotions, donation drives etc. Product harm crisis can potentially result in decreased consumer purchase intentions, reduced sales, increased vulnerability to competitor marketing activities, and, importantly, damage to brand equity (Dawar and Pillutla 2000; Klein and Dawar 2004; van Heerde, Helsen, and Dekimpe 2007)[2,3]. The idea of value to the consumer drives the pricing strategies/ promotions of the companies. It is this perceived value by the consumer that may be affected after a product harm crisis. And thus a pricing change/ promotional offer may temporarily accommodate this change in perceived value.

This raises an interesting question to be answered, can changing product pricing/ offering promotions mitigate the effects of product harm crisis. And if yes how do they affect the brand value in the process?

The Objective

The objective of this experimental study is to find a possible way to accommodate the change in perceived value of a product to the consumer after a product harm crisis event. And to recommend ways to accommodate it in product pricing and promotions without affecting the image of the brand in a longer time period.

Existing Research

Multiple papers have been published which analyze various ways of assessing and mitigating product harm crisis for a product.The research thus far has tended to focus on identifying either the ill effects of product harm crisis[3] (Klein and Dawar 2004; van Heerde, Helsen, and

Dekimpe 2007) or the corporate-level strategies to deal with such crises (Ahluwalia, Burnkrant, and Unnava 2000; Coombs 1999; Dawar and Pillutla 2000; Dutta and Pullig 2011; Xie and Peng 2009).And on specific promotion programs that serve to regain postcrisis consumer based brand equity, which has important implications on theory and practice[1]. Prior research also shows that product promotions in terms of sales can lead to sales increase[1]. On the other hand research also points to excessive use of price discounts leading to increased price sensitivity and weakened brand equity. Thus, these promotions may be beneficial for short term but exert negative effects in the long run[1].

Experimental setup

Based on the research conducted on this topic. An experimental study to analyze the effects of change in product promotion or pricing strategy to accommodate the change in the perceived value of the product to the consumer, because of such an event could be extremely valuable to contain the effect of the crisis while also shielding the effects of the crisis on company revenue in the short term. Such an experiment is relatively difficult to design because of the large number of factors affecting the perceived value of the product to the consumer. These include, the original brand equity, original pricing strategy, the locus of causality of the product harm crisis(the reason of product harm crisis being external or internal to the company, promotion value and also promotion depth (i.e., the monetary value of a promotion)[1]. Apart from these if we drill down to how a consumer attributes value to a particular product we find various features of the product and competing product play major role. Thus, the value of a product to the consumer may only change heavily if one of the valuable features of the product is affected by the product harm crisis. For example if the printing on packaging of a product like beer is found to be affecting the handling of the product while drinking then the value of the beer may not be heavily affected as the value of the beer may mainly be derived from the taste than from the package if the beer is a low cost high volume product. On the other end if for the same beer if a few beers were found to be made from substandard materials then the perceived decrease in the value of beer for the consumer may have changed heavily.

All these factors need to be accounted for to analyze the causal relationship we are interested in. Thus, I propose the following experimental setup.

Experimental Design

Entities: 2 brands competing in the same industry with roughly similar market share

Brand reputation: Moderate or High.

Type of product crisis: ambiguous locus of causality. (this can be modified to give two distinct scenarios to check the difference perceived by the consumer of unambiguous and ambiguous locus of causality)

Mode of information conveyed: Access only to online reviews from multiple sources collected in a single file

Treatment: price discount vs no discount in a time frame roughly two weeks after the crisis.

The Treatment

In this experimental setup, we can run a series of experiments by changing any one of the constant factors mentioned in the experimental setup. The treatment however remains the same, whether a particular product was sold at a discounted price or not. This is essential as with the treatment group getting discounted product, and the control group getting product at full price, the effect on sales for each group can be easily analyzed. The experiment can be executed using two products to assess the validity of each outcome of treatment, as product loyalty and product familiarity may affect the results of the experiment heavily. Thus the treatment can be varied by changing the brands and also by changing the amount of discounts given on the product each being done mutually exclusively. Participants will randomly be assigned to one of the brands or level of discounts.

Outcome Measures and Covariates

The outcome measures which will matter while conducting the experiment would be the ATE, and covariance (ANCOVA) on brand attitude and purchase intention. While the covariates which would heavily affect the experiment and thus must be collected would be the product features, product familiarity and price consciousness. These covariates need to be collected as they affect the way a consumer makes decisions. As price and discount are not the only ways a consumer makes decisions regarding buying the product. And collecting these covariates will help us account for these factors, so that our assessment on the variance in purchase the discounts bring about.

Possible Data Collection Methods

The data for this experiment can be collected by creating survey online like on AMT. The same experiment can be executed if any E-commerce company allows the team to implement such an experiment on there website.

Blocking and Clustering

Both blocking and clustering need to be applied on such a experiment where data would be collected from a diverse group of subjects. The data could be clustered based on the familiarity a consumer of the survey has with a product. With such a clustering method the results of the experiment could be interpreted much more consistently across the diverse group of consumers and thus, we can assess such promotions affect which group of consumers more. On the other hand block is necessary as a lot of factors vary the way consumer attribute value to the product the same has been discussed previously in this writeup. The difference in the control and treatment group can be very different by chance as the buying pattern of people of differs based on demographic which include gender, race and location.

References

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