A New Approach to Test Marketing

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Today's test markets are a surprisingly obsolete management tool, says the author of this article. Their ability to predict ultimate success is proving to be both limited and questionable.

Yet the limitations of traditional test marketing conflict with the growing need for greater predictive precision than ever before. This article indicates what the future may be for test markets.

ONE of the sacred institutions in grocery and drug marketing today is the test market. The high cost of marketing failures has made this a cornerstone of marketing plans.

Yet test marketing has not been an accurate prediction device. Too often managements have found that test marketing results are ambiguous. As a result, the test market fails in its real job—to reduce uncertainty about basic product marketing decisions.

Limitations of Traditional Test Marketing

Moreover, the failure of the test market to deliver accurate sales predictions has led managements down many costly roads. Test market plans may include many separate test areas at great cost; but there is no evidence that this proliferation is providing the answers.

In fact, the limitations of traditional test marketing are such that further increases in the number of separate test markets would not overcome them. Certainly taking into account the high cost of test markets, in terms of management effort and corporate resources, the level of prediction accuracy has not been encouraging. And yet test marketing technology and related research efforts have been a focal point of management attention for several decades.

Interestingly enough, test marketing technology also has failed to produce axioms or theories from which to interpret test market results. Instead, there is mythology.

In examining the test marketing of a new line by a major food products company, one researcher observed that the various management hypotheses were subjective, numerous, and diverse: "The executives invariably had a pet hypothesis as to the intrinsic characteristics of market areas which accounted for differences in performance in future areas. These hypotheses had been generated both from observation in the test areas and with past sales of similar product lines."1

Nevertheless, test markets and similar new product planning devices absorb the bulk of the total new product marketing research expenditures of major American companies. Each of several major grocery product manufacturers individually spend more on marketing research than other entire industries—such as furniture, home building, and clothing.

Reasons for Unsatisfactory Results

Since many extremely competent marketing researchers and mar-

marketing executives have devoted considerable attention, time, and funds to test marketing, why are the results so far from satisfactory? The reasons are several.

1. The salesmen in the selected areas are stimulated beyond normal activity levels by mere awareness of the fact that a test is going to be conducted in their market. No matter how many times the salesmen are urged to make only "normal" sales efforts, the fact that his area is being scrutinized by the top management of his company causes a more intensive effort. For example, if sales are not up to the salesmen's subjective expectations, sales pressure is almost unconsciously increased through unplanned selling efforts—they want it to be "successful." The performance becomes a test of the salesmen, not of the product.

2. The trade is alerted to the fact that a test is being conducted in the area. In fact, this is often the reason the trade are asked to accept the product. For a variety of reasons, important elements of the trade are usually interested in the performance of a new product; and thus, the manufacturer may receive considerable artificial distribution and retailer support.

3. Special introductory offers and promotions are often made which would not otherwise be made, because it is so important to get distribution (to measure consumer acceptance) and to maintain distribution for specified time periods within specified retail outlets. Some of the introductory offers are so low that the real retail price of the test item is depressed below the price at which the manufacturer could profitably produce the item for marketing.

4. Competitive efforts, both deliberate and coincidental, have profound effects on the test market results. These efforts take place through the entire spectrum of marketing action: advertising, display, special promotion, sampling, couponing, special pricing, special retailer margins or allowances, and actual buying actions.

5. Measurement accuracy is a major source of ambiguous data. Store auditing is often quite inaccurate, due to inadequate store records and incomplete knowledge of store billing and handling systems. Also, the ability to obtain representative sampling of all major outlets—chain and independent—causes data adjustments to be made to account for incomplete market coverage. This level of data inaccuracy can be particularly high when the measurement is of an ad hoc nature and involves temporary arrangements and relationships.

The Changing Functions of Test Marketing

The limitations of test marketing are causing managements to seek other prediction devices to explore traditional test marketing. The need for more accurate measurement is further compounded by the changing needs of today's marketers.

Management's uses of test marketing results are rapidly changing. Greater accuracy than ever is required.

No longer are test markets used largely to separate the very successful from the very unsuccessful product—a relatively easy task that is now taking place in advance of the test market. This goal is being achieved by improved product and concept testing techniques prior to test marketing introduction. Management is no longer willing to risk the cost (up to $500,000) and competitive warning (up to two years) that a traditional test market represents merely to uncover a winning product.

As a rule, management is test marketing only those products for which there is an expectation of going national. Evidence of this is that leading grocery product companies—such as General Foods, General Mills, Pet Milk, and Pillsbury—are now going into national distribution with 75 to 85% of the products that are test marketed. Obviously the "winners" are selected in advance of test marketing.

What, then, is the new role of the test market? It is becoming the first phase of national distribution. It is increasingly viewed as an aid to capital budgeting and facility planning. How large a plant is needed for national sales? What is the optimum promotion spending level? How many dollars will produce how many sales? What is the return on investment? A company averaging 20% return may well reject a new product that produces only 8%. Another company might embrace the same product because its average return is 7%.

Most companies have budgeted fixed payout periods for new product investments; and the role of the test market is to indicate the levels of marketing spending and support which will meet these payout goals. Which combination of spending level and sales support produces the profit maximization?

Truly bad products are no longer test marketed—good products are mismarked. In the last ten years a significant proportion of the "unsuccessful" new convenience food product entries failed because of overspending or underspending on product introduction—a failure of budgeting as much as of consumer rejection.

To answer the changing demands made of the test market, new research techniques and approaches are evolving. Test marketing is no longer asked to say

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“yes” or “no” to a new product. Instead, it must answer in fairly precise terms a much more demanding question: How much will product X sell?

**Elements of Successful Measurement**

For purposes of analysis, test market prediction can be divided into two elements:

1. **Consumer acceptance**, as measured in terms of initial and repeat purchase levels.
2. **Trade acceptance**, or the ability of the manufacturer's sales force to secure, maintain, and expand distribution of the new product.

Consumer acceptance is increasingly subjected to accurate measurement under controlled conditions; trade acceptance is not. Each is vital to the success of a new product and should be measured separately. Yet many manufacturers persist in continuing to try to measure the two in the same test. Unless they are measured separately, the basic problem of accurately allocating marketing resources cannot be solved.

By measuring consumer acceptance through tightly controlled market experimentation, the marketing executive is able to determine trade acceptance through more normal test marketing efforts. In the past, the marketing executive was often unable to tell whether a new product failure was a consumer or trade problem. Now, by separating the measurements, the nature of any problem is determinable.

Techniques have now been developed which focus on the determination of consumer acceptance of new products in an actual marketing environment. In a sense, management has come to recognize the need for letting research personnel control the test market, in order to ensure the kinds of controls and designs necessary to accurate measurement and prediction.

Thus, management is beginning to recognize the need for increased control over the test marketing environment and situation—recognition that this is a research device and not a sales device. Closely related is an improved understanding of what is really taking place under test marketing conditions.

**Controlled Market Experimentation**

In a sense, manufacturers are learning that the establishment of ad hoc research measurements in test marketing environments simply are not adequate or rigorous enough for accurate measurement and prediction. Increasingly, manufacturers are showing a willingness to bring the test marketing problem to an established research environment or marketing laboratory.

Some major grocery product companies are running as many as a dozen controlled experiments of this type concurrently over a wide range of products and problems. Five years ago, these same companies were running none.

Test marketing is, of course, an experiment. Like all experiments, the test should be designed to test one hypothesis or several. In most new product tests, the hypothesis to be tested is that the new product can obtain a given brand share within a given time under given conditions.

The establishment and maintenance of all experimental controls and designs are simply not within the competence framework of the wholesaler or the manufacturer's sales force. Moreover, they cannot be overly temporary. Temporary facilities lack the measurement precision possible with a permanent arrangement—in terms of both measuring personnel and the establishments to be measured.

Permanent operating facilities need to be established in selected markets. As a result, controlled marketing facilities are now offered by several independent marketing research companies. In some markets, permanent arrangements have been made which permit the researcher to place new products on the shelves of grocery and drug retailers. In order to ensure experimental validity, the researchers are often allowed to:

1. Handle the placing of products on shelves in retail stores.
2. Service these products regularly, to ensure that the required in-stock condition is maintained.
3. Audit product class sales.
4. Observe competitive actions that would affect the experiment.

For the experiment to be effective, the products need to be placed on retailer shelves in accordance with rigid conditions established by the manufacturer. These conditions generally include:

1. Retail price.
2. Number of facings or exposures the test product is to receive on the shelf.
3. Product location within the store.

The conditions to be established are always within reason. Certainly the product should not be given an advantage that could not readily be duplicated.

However, the issue is increasingly one of controlled rather than natural conditions. Management is learning far more from consecutive experiments which contrast products given identical market treatments than from studies that were learned from test markets which provided no real comparability. It is far more useful to contrast the sales results from products A, B, and C which were all based on two facings in the baked-goods department, than it is to know sales results where product A was out of stock one-fourth to one-third of the time and product B was granted far more shelf space than C because of favorable sales results when product A was launched.

Distribution must be immediate and as total as possible. The distribution period needs to be specified, so there is no discontinuance of distribution within the measurement period. By having continuous servicing of product, out-of-stock conditions are minimal or absent. Conditions of price, facings, and location should not be allowed to fluctuate dur-
The tightly controlled experimental test market understandably produces data precision vastly superior to classical test markets. Statistical sales variance in these tests was found to be only 25 to 30% of the variance produced by traditional measures, based on comparisons of controlled and uncontrolled brands in three product classes—moist dog food, cake mixes, and canned meats. And measurement error also was reduced.

Experimentation of this type provides a determination of the effectiveness of overall new product marketing strategy; and it also permits the evaluation of alternative tactics through matched store-panel experiments.

In a sense, experiments take place within experiments. By varying the promotional devices and emphasis given to each device, measurements of the value of these devices can be obtained. In this regard, the matching panels should include corporate chains, if possible. The uniform marketing and promotional policies within a corporate chain drastically reduce the effects of unbalanced outside stimuli. Competitive price reductions or special promotions are matched in each panel if the panels are balanced by corporate chains.

Such experiments might be used to uncover at what price and market the spending level sales and profits will be optimized. Obviously, the lower the price, the smaller are the monies available for promotion, and the larger the volume required for comparable profits. Yet through judicious testing of price-level and market-support spending alternatives, optimization of profits can be approached.

By optimizing accurate and meaningful data on consumer acceptance of his new product, the marketer has already solved much of his problem in terms of trade acceptance. First, the data are helpful in developing trade acceptance. Second, knowledge of the best tactics (such as price or display space) can be related to the effort required to achieve these tactics. Finally, and most important, the entire introduction can be devoted to trade problems because the product is known to have customer acceptance.

The use of traditional test markets largely to measure trade problems is not a serious research challenge. The focusing of the effort on this one objective makes the measurement relatively easy. The trade-acceptance objective can be clearly and realistically defined, and the funds committed with confidence that would not have been the case without a measurement of consumer acceptance. In a sense, the variable of trade acceptance has been isolated and can thus be measured and resolved. Unlike consumer acceptance, trade acceptance is subject to change through commitments of time and funds.

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