

A COMPARISON OF TEST MARKETING OBJECTIVES, METHODS, AND PRACTICES AMONG DOMESTIC AND FOREIGN CONSUMER GOODS MANUFACTURING FIRMS

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ABSTRACT

Test marketing is an expensive research undertaken by consumer products manufacturers; direct costs for a standard market test can range from \$3 million to more than \$10 million (Churchil et al. 2010, Armstrong and Kotler 2013). Test marketing is an experimental procedure which provides an opportunity to test a new product under realistic market conditions to obtain a measure of potential sales in the national distribution. United States firms are pioneers of test marketing procedures. It is widely acknowledged in the U.S. that test marketing plays important part in the new product development process. On an average, 59 and 53 percent of Fortune 500 firms conducted test marketing on a regular basis prior to introducing a new product to the national market (Twedt 1983 Kinnear and Root 1989). The motivations for test marketing are to obtain a reliable forecast of future sales, pretest alternative marketing plans, and prove-up concepts and tweak packaging and advertising presentations while tightening sales and profit forecasts. Firms often use multiple test market sites to test different product positioning strategies, to observe potential impacts on the entire product line, such as cannibalization, and to assess the reaction of the sales force, retailers, and distributors of the new product while acquiring valuable customer feedback. Just as there is good reason to test-market a product in a domestic market, an international test can also give the firm valuable insights into the launch of global products. A common approach to international test marketing is to use a single country as a proving ground before other markets are entered. In Europe, smaller markets such as the Holland, Belgium, Austria, and Switzerland may be used to launch a new product. Because of these countries' small size, a test would include national introduction, and the results would be applicable in other countries (Gillespie and Hennessey 2011). Further, it is important to test a new product under actual market conditions for compatibility in a different environment, especially outside the home country, before introducing it in full-scale (Keegan and Green 2013). Failure to assess actual use conditions can lead to big surprises. For example, Unilever spent \$300 million to develop a new detergent, which was formulated with stain-fighting chemicals intended to clean fabrics faster, but instead the new formula resulted in damaging clothing items. The company lost the opportunity to gain share against P & G in Europe when it rolled out a new detergent brand in Europe without sufficient testing (Wentz 1995). Sometimes, however, a test market takes place in country other than the country of the initial launch. For example, IBM tested a new branding campaign for its Global Services line in Canada but launched it in the United States and Carewell Industries test-marketed a toothbrush in Singapore before its U.S. launch (Davis and Young 2002). Microsoft and Motorola often test-market in South Korea-where nearly three out of four homes have broadband Internet access, before launching products in the U.S. market (Advertising Age 1999). Heinz tested its new teenager-oriented ketchup campaign in Canada and then rolled it out worldwide with minor modifications. Despite these successful examples, circumstances are never exactly the same from one national market to another, and extrapolating results from one test market in one country to other countries must therefore, be done with caution (Gillespie and Hennessey 2011). Beyond benefits of a test market to the individual firm, one must also recognize such a market test informs competitors of the firm's activities and thus, may increase the speed and effectiveness of a competitive response. For example, Proctor and Gamble discontinued its Olay cosmetics after three years of continued test marketing when Revlon's Almay and Johnson& Johnson's Neutrogena had bit it in the marketplace with the same benefits accompanied by heavy advertising (Advertising Age 2001). Certain considerations for deciding to test-market include when: (1) acceptance of product concept is very uncertain, (2) sales potential is difficult to estimate, (3) cost of developing consumer awareness and trial is difficult to estimate, (4) a major investment is required to produce the at full scale (relative to the cost of marketing), and (5) alternative prices, packages, or promotional appeals are under consideration. (Gultinan and Paul 1994). Similarly, reasons for not test-marketing include when: (1) the risk of failure is low relative to test-marketing costs, (2) the product will have a brief life cycle, (3) beating competition to the market is important because the product is easily imitated, and (4) basic price, package, and promotional appeals are well established. (Gultinan and Paul 1994)

Keywords: