How do I: Conduct a Test Market?

Think you have a great product ready to launch but need a more solid business plan before getting the green light? Test marketing can help you fully understand your product's potential in-market. This guide gives a broad outline of the key elements of test marketing, the various methodologies and outcomes.

Test marketing can answer a number of critical questions about your product. It can provide 'real' information on things that are otherwise very difficult to predict e.g. purchasing habits over time. Test marketing is regularly used in the food and drink sector to ensure national launch plans have the greatest chance of successfully meeting their objectives. Indeed, retailers, foodservice operators and wholesalers often encourage, and can help with, test marketing.

BUSINESS BENEFITS

Conducting test marketing will provide a number of business benefits, including:

- Evaluation of demand for product and the impact of marketing support.
- Increased accuracy of forecasting for launch.
- Reduced investment risk.
- Allowing scope for refinement of product and marketing plan prior to launch.

GETTING STARTED

The purpose of test marketing is to provide 'real' in-market learning within a scaled-down environment. Before entering a test market, you and the business have to be convinced that the test product is market ready, i.e.

- The product delivers a motivational benefit to the consumer.
- The product is fully functional and the business can produce it within an approved financial model.
- The marketing plan is in place to build awareness and trial of the product.

KEY QUESTIONS

The next step is to ask you, and key people within the business, some questions:

When: is the best time to start the test market e.g. ice cream in November may be limiting your chance of peak success. If the optimum time is two months from now, can the business deliver to this timescale?

Where: what size of test market is required? In general, a small but well targeted, accurately monitored test is better than a large loosely controlled test area. What stores or cities to choose? In deciding the geography of the test area, remember the purpose of the test market is to replicate the full-scale launch. As far as possible, key elements should, therefore, match the full-scale launch aspirations. Key elements would include target audience profile, buying environment, competitive presence and level of marketing activity. In addition, the ability to read results and make changes to the marketing plan will be important.

What: information do you need? The marketing plan will include objectives for the product launch e.g. sales, penetration and weight of purchase. The test market will need to provide the information to evaluate the product test performance versus these launch objectives.

How long: should a test market run? This can range from two weeks to two years dependant on the product, the marketing plan and the degree of success at test stage.
LIMITATIONS

While a test market can be a very valuable decision making tool, it does have limitations which have to be considered before committing the business to this route. For example:

- Replicating national distribution within a smaller area is not always possible as outlet coverage of most of the food and drink sector varies significantly by region.
- Translating national marketing plans to a test market level can be difficult e.g. many national press titles cannot be bought at a region or town level.
- Test marketing activity allows competitors to monitor your activity.
- Extraneous factors can interfere with test results e.g. weather or economic factors.

INVESTMENT

The level of investment required for a test market will vary by product, sector and method of testing. While designed to ultimately reduce market risk, test marketing should not be used as simply a "cheap option". Investment levels will generally be lower than a full-scale launch. However, proportional to the area being tested, investment will be relatively high. In addition to the investment required to develop the product, other factors which require investment include marketing and research.

**Marketing:** investment may include advertising, promotion, direct marketing, sampling and PR investment. The test marketing budget will have to account for both the development, production and implementation costs for the marketing activity. However, some of these set-up costs (e.g. advertising production) will not need to be incurred again for full scale launch.

**Research:** dependent on the nature of the test market, research costs can be a significant part of the investment. Some tests require sophisticated research techniques such as in-store observation. In addition, where the test objectives require particular consumer information (e.g. consumption data), then specific research will have to be commissioned.

TYPES OF TEST MARKETING

**Simulated store test** – this method uses a small sample of consumers (usually 30-40) to test their initial response to a product. The consumers will be shown advertising for a range of products including your own (if this is applicable) and those from competitors. They then 'shop' in a simulated store fixture, while being observed throughout, and later interviewed about what choices they have made. While this is a fairly artificial test, it does provide useful information in a controlled way and at an early stage. Advantages of this method are that the results are quick and advertising effectiveness can be evaluated. The cost of implementing this method is less than that of standard or controlled test markets. Advances in research and technology have provided improvements to this type of test in recent years. However, this method is arguably more rooted in research than reality and, therefore, may be considered less of a test market.

**Controlled test** – this is where a number of locations or trade customers will be used as the test area. The product is launched into the test area and elements like product, promotion, placement and price can be controlled. However, it is not possible to replicate full plans like advertising or media promotions. This method is generally quicker and less expensive than standard test marketing. However, the trade-off is that it can be less representative, so more caution may have to be exercised when reading the results. This method also uses a smaller sample base than standard testing.

**Standard test marketing** – this method most accurately replicates a full-scale national launch. Geographic areas are chosen (it could be towns, cities or a region of the country). The results will often be monitored versus the control area (e.g. the rest of the country), to give a full understanding of the change in consumer behaviour your product launch has effected. This method of testing is really a trial run for the major launch and all elements of the sales and marketing plan should be assessed e.g. from reaction at store level and stock turn around to levels of trial and repeat purchase. While this is the most effective of testing methods, it is also the most expensive and time consuming.
RESULTS

Once you have got sufficient information from the test market, there are principally three options for going forward.

Staged Rollout: assuming successful results, the company may decide to rollout the product launch in stages. This may, effectively, increase the testing period and provide further learning before full-scale launch. This is a very popular way of launching a product as it allows the careful management of investment. The major risk is that it allows competitors to observe, and potentially enter, the market first in another part of the country.

Product or Marketing Modifications: this may be required if the test results highlight that some elements of either the product, or the marketing, mix are not working e.g. price too high, product too sweet, advertising not fully communicating. In this case the product, or marketing, plan will be revised and, depending on the nature of the problem and the marketing environment, be re-introduced in the same test area or, if felt necessary, a new test area selected and launched there.

National Launch: if the test provides satisfactory results, these can be used to develop the commercial proposal to launch the product nationally. The test learning will help you more accurately forecast sales levels and patterns. In addition, levels of marketing investment can be more effectively planned. The test results will also be valuable when securing national listings as they provide the most compelling case to present to the distributor.

HOW DO I? SUMMARY

1. Ensure the product is market ready.
2. Decide which method of testing you require by asking key questions.
3. Plan the test market and enlist the support of the necessary retail and specialist agencies.
4. Monitor test results regularly and make modifications as required.
5. Allow sufficient test time to satisfactorily understand the product potential.
6. Evaluate test results and move to staged launch, national launch or modification plan.

OTHER SOURCES OF INFORMATION:

Visit www.scotlandfoodanddrink.org The information service tailored to the food and drink industry. Contact the Scotland Food & Drink Helpline on 0845 601 3752.