

medium-, and low-price zones. The zones were determined by relatively simple competitive dynamics such as the proximity of warehouse stores. The company's zone strategy had the potential to improve annual gross profits by only 0.66% over a uniform pricing strategy, whereas Montgomery found that micromarketing could lead to a 2.74% improvement. Because of the large spread between gross and operating profits in Dominick's and most supermarkets, the above gains would translate into a 17% to 25% increase in operating profits. To achieve similar gains, retail managers should use scanner data and demographic data to include store-specific sensitivities in their pricing strategies.

Eric Matson

Market Research

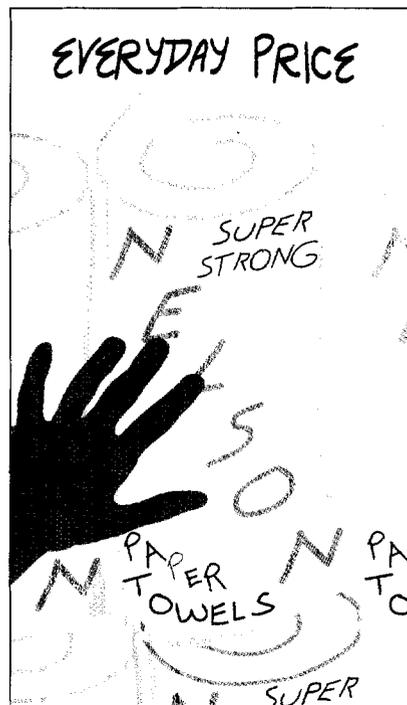
Shaking Up Consumers at the Point of Purchase

The vast number of products cluttering store shelves today has made it difficult for manufacturers to attract consumers' attention and build sales volume. The typical supermarket in the United States carries more than 30,000 different items, and most consumers make their brand selections in ten seconds or less. How can manufacturers distinguish their products from such clutter and generate consumer interest? Should they change a product's packaging, run a price promotion, increase shelf space, or introduce a new product into the category? These are the questions that Raymond R. Burke, an associate professor at the Harvard Business School, asked in his August 1995 paper, "The Virtual Store: A New Tool for Consumer Research."

Using a computer-simulated store, Burke conducted three consecutive studies to explore the impact of point-of-purchase factors on consumer behavior. In the first study, the researcher asked 100 individuals to take a series of seven shopping trips through the virtual supermar-

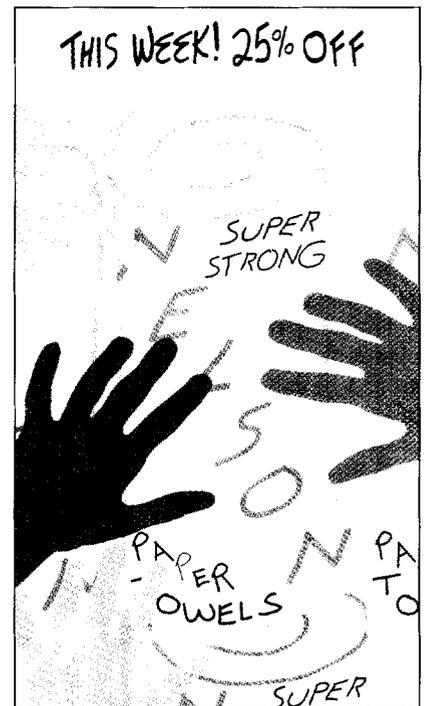
ket. On each trip, the shoppers bought products from four different categories of packaged goods: soft drinks, paper towels, tuna fish, and orange juice. On the fifth, sixth, and seventh trips, Burke introduced changes in three of the four product categories, with the fourth category serving as the control. For example, some participants would discover a new product introduced in the soft drink category, new packaging in the paper towel category, a 30% price reduction in the tuna fish category, and no change in the orange juice category. Each participant saw only one experimental condition in each product's category, but the group as a whole saw all possible combinations of conditions and categories.

The study revealed that price promotions had the most dramatic impact on choice, increasing brand sales up to 20 times the level observed during nonpromotional periods. The sharp impact of the discounts was most pronounced in the paper towel category because shoppers generally perceive brands to be of comparable quality; it was least



pronounced in the orange juice category because shoppers buy less of a perishable product. The study's data indicated that most of the increase in sales resulted from stockpiling by

a brand's current customers rather than from switching of brands by new customers. Burke points out that price promotions were therefore likely to reduce a brand's sales in the



future as consumers went through their inventory at home.

The effects of new product introductions and new packaging were more gradual, with sales rising during the fifth, sixth, and seventh shopping trips. Surprisingly, the packaging change produced about the same level of brand switching as the price reduction *without* the undesirable stockpiling effects and subsequent loss of margin.

Burke explains that one of the limitations of the first study is that consumers in a real supermarket see a variety of products on sale, whereas in the simulated one they saw only one product on sale at a time. In fact, according to conventional marketing wisdom, if shoppers see the same promotion repeatedly, they get used to the stimulus and respond less over time. The second study, then, examined how consumers respond to repeated price discounts by competing brands.

In this study, another group of 100 consumers also took seven trips through the virtual store, shopping in the same four product categories.

Burke designed four experimental conditions: first, the target brand was discounted on the second, fourth, and sixth shopping trips; second, a competitor's brand was discounted on the second and fourth trips, and the target brand was discounted on the sixth trip; third, the target brand was discounted on the sixth trip; and fourth, none of the brands were discounted.

The research revealed that consumers' response to price reductions actually *increased* with repetition. In the first condition, consumers gradually stopped buying the discounted brand when it sold at full price, instead waiting for it to go on sale. In addition, consumers had a still greater response to price promotions when a competitor's brand had been promoted repeatedly in the past, as in the second condition.

Although consumers respond rapidly to price promotions, they are slow to react to introductions of new products. In the third and final study, Burke investigated how merchandising and promotions could encourage consumers to try new products more quickly. In this study, 96 shoppers again took seven shopping trips and bought from the same four product categories. A new product was introduced in each category on the fifth, sixth, and seventh trips. Burke designed four merchandising and promotion conditions to accompany the new product introductions: first, a NEW! sign; second, a 30% price reduction with a SALE sign; third, twice the usual amount of shelf space; and fourth, no special merchandising or promotion. In addition, half the participants in all four conditions could buy a competitor's product at a 30% price reduction (a common practice designed to disrupt a manufacturer's new product introduction and help the competitor retain customers).

The results of the third study indicate that a competitor's promotional activities can have a negative impact on consumers' response to a new product's introduction. The study revealed that when there were no competitive price reductions, consumers spent about the same amount of time, 11 seconds, exam-

ining products in each of the four conditions. When the competition cut its prices, consumers' attention to the unpromoted new product plummeted to 5 seconds. When additional shelf space or a NEW! sign accompanied the new product, viewing held at 10 seconds. Finally, when the new product was discounted, attention peaked at 16 seconds. In addition, consumers purchased the new product most often when it was accompanied by a price promotion. In other conditions, the purchase rate was lower, with the NEW! sign accelerating the rate when compared with the control and with increased shelf space. These results suggest that new products can indeed get lost in the clutter. But managers should not despair: Effective merchandising and promotions can help their brands stand out from the crowd.

Katherine Zoe Andrews

Identifying Future Leaders

They're Made, Not Born

Where do outstanding executives—the kinds of leaders that are capable of steering companies through

change in a global business environment—come from? How can companies identify and develop them?

Professors Morgan W. McCall, Jr., Gretchen M. Spreitzer, and Joan D. Mahoney of the University of Southern California's School of Business Administration suggest that the conventional competency-based selection model—that is, the practice of screening people on the basis of their demonstrated skills—may be flawed. First, the model presumes that the attributes of today's successful executive will describe tomorrow's as well. Second, it looks for the same characteristics in executives who are still developing as in those who have already matured. And third, by combining into one ideal the attributes of a group of successful executives, it creates a standard that no single person can meet. Potentially effective leaders, says McCall, "may be overlooked because their demonstrated competencies only partially reflect the ultimate list of desired characteristics, or because they represent a different model entirely."

McCall, Spreitzer, and Mahoney believe that a better executive selection model would be based on a fundamentally different set of assumptions: first, that the future will be

