

# **Price Elasticity Study for SMC Products**

## **Final Report**

**Submitted to:**

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**September 10, 2012**



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### Price Elasticity Study for SMC Products

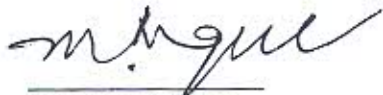
Dear Mr. Rahman,

Please find attached 11 copies of final report on the above. We hope you will find the same in order.

We take this opportunity to thank you for entrusting us with the assignment of carrying out such an important study.

Assuring you our full cooperation at all times.

Kind regards,



Monzurul Haque  
Chairman & Managing Director



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## Executive Summary:

### Objective:

The prime objective of the study was to measure the demand elasticity of selected SMC products - OCPs, injectable and SDK, and to determine the consumer acceptance of these products at different price levels. As such the Executive Summary emphasizes mainly on areas related to the objective of the study. For other details one may go through the detailed report and tables in appendices. The following section summarizes key findings on different products one by one.

### OCP Summary:

**Awareness and usage:** Femicon was almost universally aware of brand amongst the OCP users, followed far behind by Femipil and Minicon. Other major aware of brands include Ovostat Gold, Marvelon and Noret – 28. Similar pattern was found in terms of current usage as well. Femicon was the most used current brand amongst the OCP users, followed far behind by Femipil. Other notable brands were Ovostat Gold, Minicon, Noret – 28 and Marvelon.

**Attribute rating:** This shows that with the exception of rating on price, most brands received relatively higher scores on positive statements and lower scores on negatives. With regard to price, while Ovostat Gold and Marvelon were considered most expensive, Femipil was rated as least costly. Femipil was also rated as a good product both on product and image attributes, more or less close to Femicon.

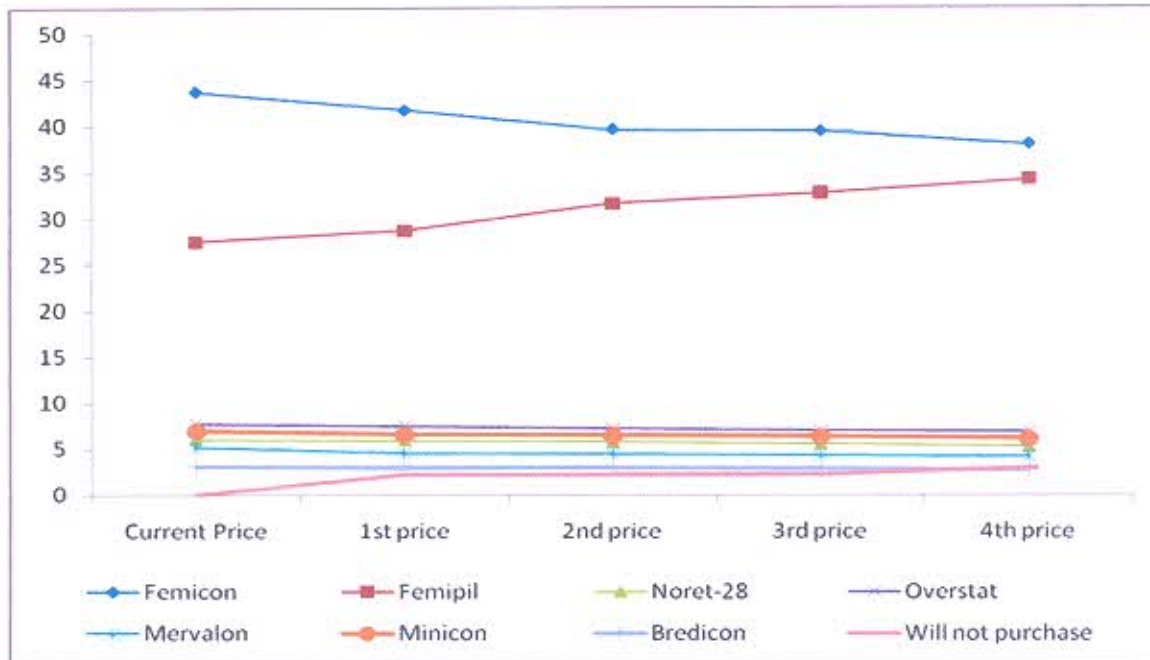
**Satisfaction rating of current brand:** With regard to satisfaction rating all the brands obtained more than 4.00 on a 5 point scale, indicating that the users were quite satisfied with their respective current brand. In percentage term an overwhelming majority of the current users were either satisfied or very much satisfied with the brand. However, when price was taken into consideration, satisfaction ratings went down for Femicon, Ovostat Gold, Marvelon and Bredicon significantly, indicating not very good value for money of these brands.

**Brand loyalty:** If own brand was not available in the usual place of purchase, mostly would search in another store. However, only a few opined to switch brand or method. Amongst those who will search in other stores, an overwhelming majority will continue searching till current brand is found, indicating a high level of brand loyalty for most of the brands. However, Marvelon users seemed most loyal, followed by Ovostat Gold and Minicon

**Market share of different brands at different price points:** Findings reveal that, with the increase in price share of all the brands with the exception of Femipil declined, and some will desert from OCP. However, Femicon being the largest brand is likely to lose most to Femipil, indicating a cannibalization of own brands as can be seen from the following graph. This would happen perhaps because in every price point price of Femipil was lowest among all the brands tested, offering best price option with increase in price, which also offers good value for money with reasonably good product and brand image as discussed earlier. SMC may carry out a cost benefit analysis before taking a pricing decision. However, the good news is,

OCP users appeared to be method loyal, and hence the market is not likely to shrink heavily with increase in price within a tolerable limit.

Brand share of OCP at different price points



**ECP Summary:**

**Awareness and Usage:** Norpil users seem to be aware of their current brand of ECP only. On the other hand some users of Imcon also know about Norpil, as awareness of Norpil is higher than its usage. However, of the total ECP users about two-thirds use Imcon and the rest one-third use Norpil.

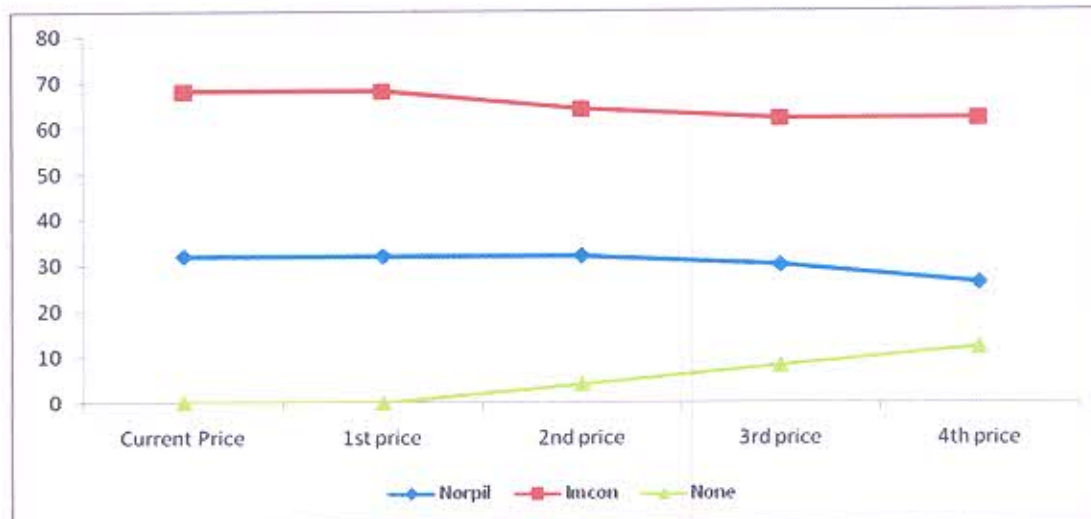
**Attribute rating:** Both the brands of ECP received more or less good product and image rating as positives are reasonably high and negatives low. However, neither of the brands was found well aware of.

**Satisfaction rating of current brand:** Like OCP, both the brands obtained 4.00 or more on a 5 point scale, indicating that the users were quite satisfied with their respective current brands, and in percentage term an overwhelming majority was either satisfied or very much satisfied with the brand. However, when price was considered, satisfaction ratings went down for both significantly.

**Brand loyalty:** If own brand is not available in the usual place of purchase, mostly will search in another store. However, only a few opined to switch brand or method. Amongst those who will search in other stores, an overwhelming majority will continue searching till current brand is found, indicating a high level of brand loyalty for both the brands. However, Imcon users seemed more loyal than Norpil users.

**Market share of different brands at different price points:** As can be seen from the following graph, hardly any brand switch will take place with increase in price. However, some dropouts are likely to take place as can be seen from the following graph.

**Brand share of ECP at different price points**



#### SDK Summary:

**Awareness and Usage:** Awareness and usage of SDK seem identical, meaning a user only knows about her own brand. However, Safety Kit is the most used brand used by 84% of the respondents, and rest use Kallyani.

**Attribute rating:** Both product and image rating of both the brands were very good and both received high scores on positives and low on negatives.

**Satisfaction rating of current brand:** Satisfaction was high for both the brands with or without price, and much higher for Kallyani compared to Safety Kit.

**Brand loyalty:** If own brand is not available in the usual place of purchase, mostly will search in another store. However, only a few opined to switch brand, and some will use other method. Amongst those who will search in other stores, an overwhelming majority of Kallyani (80%) and 51% Safety Kit will continue searching till current brand is found, indicating a high level of brand loyalty of Kallyani than Safety Kit.

**Market share of different brands at different price points:** While Kallyani would hardly lose any share with increase in price, share of Safety Kit would erode, who would dropout of the method as can be seen from the following graph.

**Brand share of SDK at different price points**



### Injectable Summary:

**Awareness and Usage:** Interview was taken only amongst Somaject users. However, of the total users about 14% were not aware of their own brand. On the other hand about 30% of Somaject users knew about Depoprovera.

**Attribute rating:** Users seemed to be quite happy with their currently used brand as the scores were quite high on positives and low on negatives, including price. Depoprovera also obtained good score from those who were aware of it.

**Satisfaction rating of current brand:** Brand satisfaction score was above 4.0 on 5.0 point scale, indicating that the users were broadly satisfied with the brand, which however went down to 3.90 with price taking into consideration, revealing some dissatisfaction about its price.

**Brand loyalty:** If own brand was not available in the usual place of purchase, about two-thirds will search in another store. However, a large segment, about one-fourth will use other method and a small segment (4%) would switch to another brand. Amongst those who will search in other stores, an overwhelming majority (84%) will continue searching till current brand is found, indicating a high level of brand loyalty amongst them.

Among those who will switch to other method, 55% will use OCP, 17% Condom, and 7% each will use IUD and Vasectomy. On the other hand, among those who will switch to another brand at any point, about half will use Depoprovera, and the rest will use whatever advised by doctor in particular and husband.

**Price Elasticity:** A small number (5%) were unwilling to accommodate any increase. However, about one-third of Somaject users are likely to dropout of the brand if its price is increased by up to BDT 25, about 60% would dropout if it's increased by more than BDT between BDT 25 and 50. Above BDT 50 it would lose more.

## **1. Background and Method:**

### **1.1. Background:**

Social Marketing Company (SMC) markets four brands of Oral Contraceptives (OCs), five condom brands, injectable, SDK and packaged ORS (ORSaline & Fruity) through retail pharmacy and non-pharmacy outlets. Quite a few SMC brands are sold at very subsidized prices to cater to the needs of the low-income population. Price of ORS and all pills are controlled by the Drug Administration. We only have full flexibility in terms of pricing for the condom category and SDK. SMC's pricing policy is based on the premise that while the low-income population segment cannot afford higher prices and needs subsidy, donors should pay for the commodities. All the other mid-range and high end brands must implement the optimal pricing strategy in order to maximize revenue of the company for attaining sustainability.

Due to the significant increase in the cost of business recently mostly as a result of increased commodity and raw material costs, SMC's revenue also has to increase correspondingly. In order to substantially increase revenue, the company's key option is to raise the prices of its products, especially of those that are priced for higher income groups. Subsidized prices of the low-end segment should also ideally be adjusted at least in conformation with the inflation rate so that it is possible for SMC's operations to be sustainable.

Keeping the above view in mind, SMC initiated to conduct this pricing research to understand the feasibility of reviewing the current pricing policy.

### **1.2. Purpose of the Study:**

The prime objective of the study is to measure the demand elasticity of selected SMC products - OCPs, injectable and SDK. And also to determine the consumer acceptance of these products at different price levels, so as to estimate the corresponding market sizes and, accordingly, decide on the most appropriate price for each brand in relation to respective market share.

While the specific objectives of the study were as follows:

#### **Among Consumers:**

- To determine Perceptual quality of SMC's brand vis-a-vis other available brands
- To determine buying pattern (frequency of buying, Quantity of purchase and consistency of purchased brand)
- To understand the overall satisfaction level with current prices of all products
- To assess brand loyalty and influencing factors for switching brand
- To measure the impact of price increase at different price points on the decision to buy among both current and potential users of the brand;



- To gauge the action current users of a brand would take if they discontinue use of their current brand due to price increase.
  - At what price do they begin to think of the product is expensive that they would not consider buying it?
  - To determine what is the most acceptable price to pay?
  - To understand the correlation of potential volume of the products to be purchased by customers at different retail price point.
- Demographic and economic profile of the current users.

#### **Among Retailers (Pharmacies and Non-pharmacies):**

- Assessment of the impact of price increase at different price, points on consumer's decision to buy their current brand;
- At increased price, opinion on which brands would benefit most due to attrition from current users;
- Recommended MRP and Trade Price.

#### **1.3. Target Respondents:**

*Definition of Consumers:* Current users of SMC and competition brands of oral contraceptive pills (OCPs), Injectable, and SDK.

*Definition of retailers:* Pharmacy retailers those who are currently selling SMC OCPs, Injectable and SDK as well as competitor's brand.

#### **1.4. Geographical Coverage:**

All 6 geographical divisions, covering both urban and rural level areas.

#### **1.5. Technique/Model:**

This was a quantitative study, and the technique was Band/price trade off model.

