Grange-Gabor Price Wheel and Price Elasticity of Demand

Multivariate Solutions

Gabor-Granger / Price Wheel

- Gabor-Granger pricing research is named after the economists who invented it in the 1960s. Customers are surveyed to see whether they would buy a product at a particular price.
  - The price is varied until it reaches the level where customers say they would not purchase the product, resulting in the optimal price for each person.

- A variation of the Gabor-Granger is often referred to as the Price Wheel.
  - With the Price Wheel, consumers are given a starting point, either at the top or bottom of an array of set prices and asked whether they would purchase the given product.
  - If beginning at the bottom half, the researcher records when the respondent indicates that the price has risen too high; when the price begins at the top end of the scale, the research notes when they say, 'yes'. What results is a pricing curve.

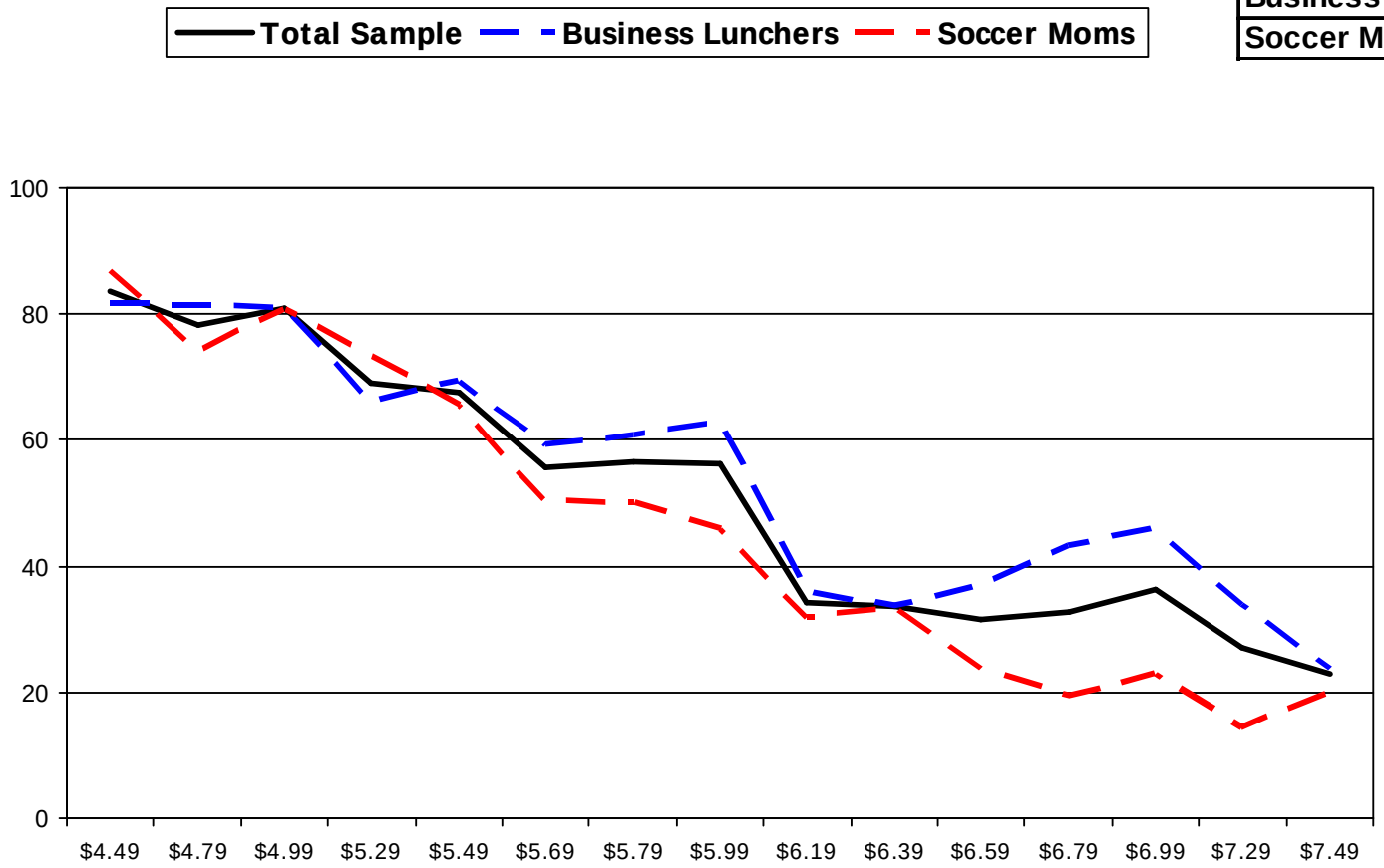
Price Elasticity Of Demand

- Price Elasticity of Demand measures the nature and degree of the relationship between changes in quantity of a service and changes in its price.
- Elasticity is calculated below:
  - For example, if, in response to a 10 % fall in the price of a service, the quantity demanded increases by 20 %, the price elasticity of demand would be 20 %/(− 10 %) = −2 (Case & Fair, 1999: 109).
  - The average elasticity of demand for Restaurant menu items is the mean change from point to point in the proceeding graphs.
- In general, a fall in the price of a service is expected to increase the quantity demanded.
- The larger the absolute number (generally negative), the more price sensitive the item.
  - For example, if a menu item has a price elasticity for a particular item of, say, -2.3, that indicates that percentage demand falls roughly 2.3 times faster than the percentage price increase.
  - When comparing two segments on a graph, the one with the more negative average price elasticity is more sensitive.

Gabor-Granger Price Wheel – Lunch

Sandwich, Fries, and a Drink

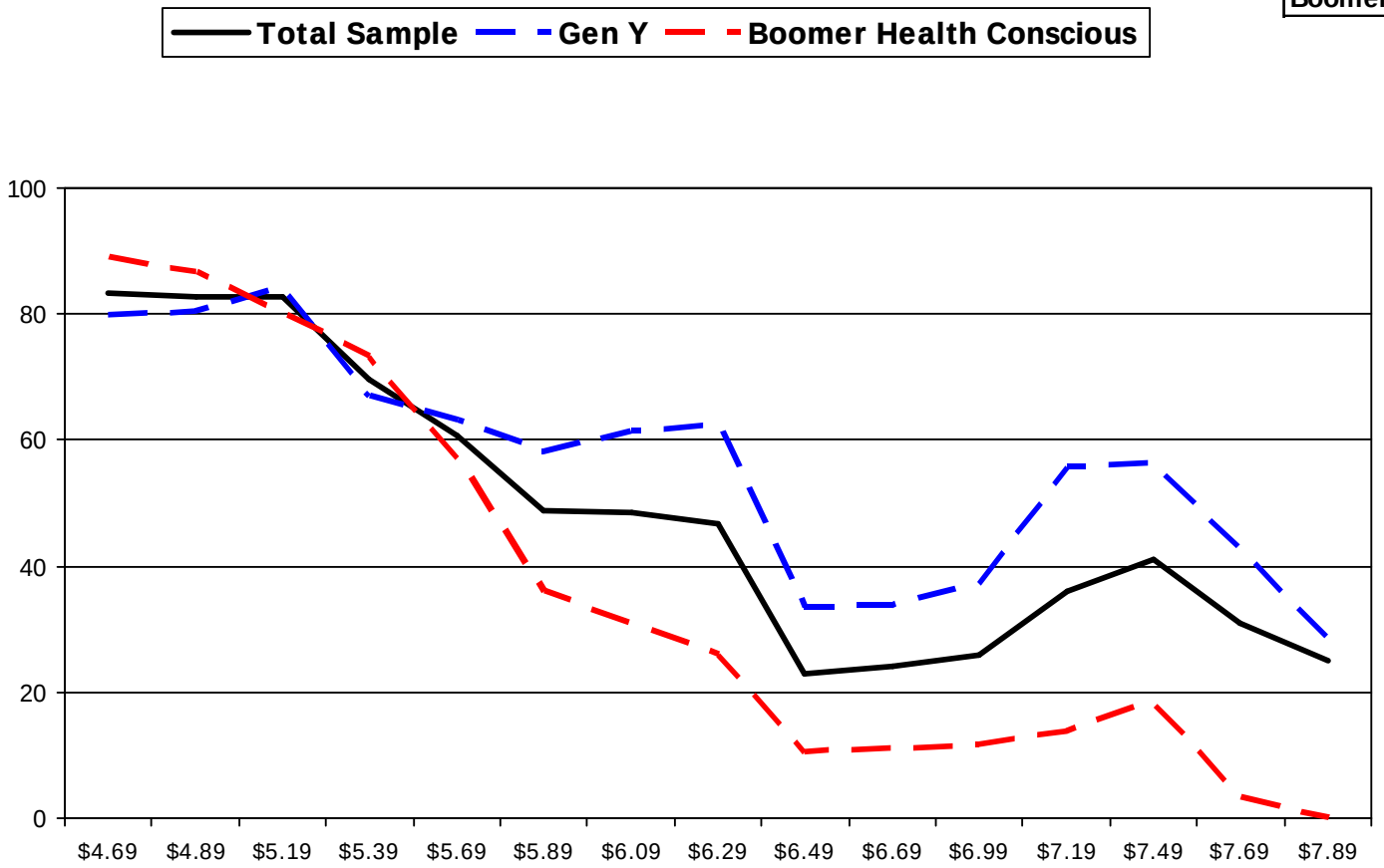
	Average Elasticity
Total Sample	-1.21
Business Lunchers	-0.41
Soccer Moms	-1.56



Gabor-Granger Price Wheel – All Day

Steakhouse Caesar Salad

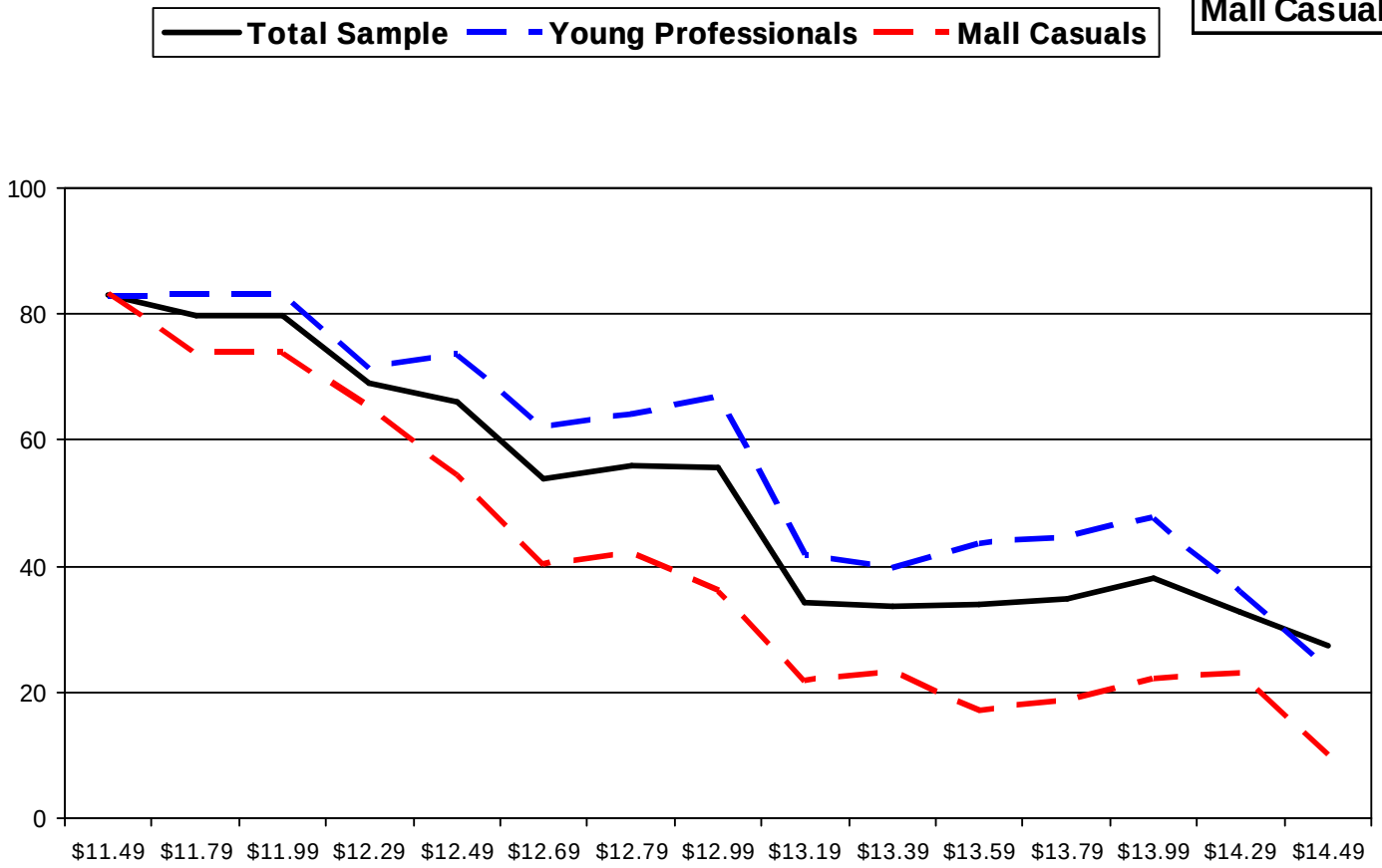
	Average Elasticity
Total Sample	-1.66
Gen Y	-1.25
Boomer Health Conscious	-1.87



Price Elasticity – Dinner

Create Your Own Ribs Combo

	Average Elasticity
Total Sample	-2.40
Young Professionals	-1.52
Mall Casuals	-3.01



Price Elasticity – Sunday Brunch

Baja Chicken Hash

	Average Elasticity
Total Sample	-1.20
Young Families	-1.81
Golf Retirees	-0.99