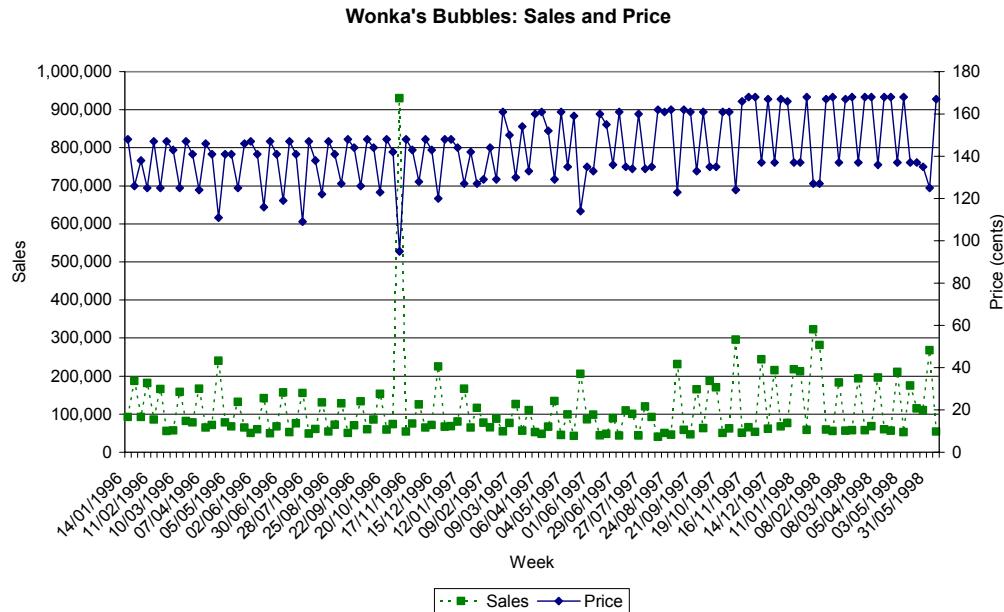
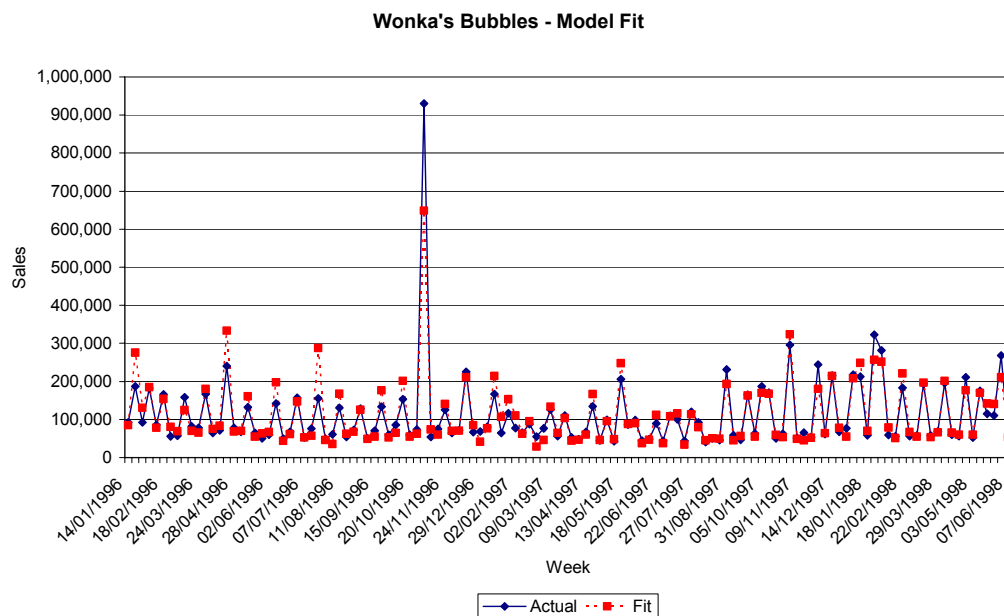


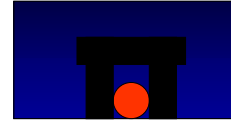
Price Elasticity Report for Wonka's Bubbles 1.25 Litre National

Shelf price increased from \$1.48 to \$1.61 in late February 1997. Typical temporary price cuts are 14% below shelf price.



The price elasticity is -4.6 and the additional impact of a temporary price cut is 14.2% . Further details overleaf.





<p>Implications</p> <p>Promotional price cuts with an elasticity of -4.6 are profitable so long as contribution is 30% or more. A 15% price cut lifts volume by 111% and revenue by 80%. The temporary price cut effect provides an additional volume lift of 14.2% and has to cover the cost of retailer co-op. Including the temporary price cut impact, a 15% price cut lifts volume by 141% and revenue by 105%.</p>	<p>Price Elasticity</p> <p>Unit elasticity (-1.0) means that a 5% price decrease will lift volume by 5% but leave revenue unchanged. Likewise a 5% price increase will cut volume by 5% but leave revenue unchanged.</p> <p>An inelastic product has a lower sensitivity, such as -0.8. A 5% price decrease will lift volume by 4% but cut revenue by only 1%. A 5% price increase will cut volume by 4% but lift revenue by 1% - a profitable outcome.</p> <p>An elastic product has a higher sensitivity, such as -2.0. A 5% price cut will lift volume by 10% but will only lift revenue by 5%. Profitability depends on contribution.</p>
<p>Breakeven relationship between price elasticity and contribution (PV ratio or marginal income ratio).</p> <p>The chart shows the relationship between PV Ratio and Price Elasticity. For each quarter (0.2, 0.3, 0.4, 0.5), there are two bars: a blue bar for a 5% discount and a red bar for a 10% discount. The PV Ratio increases from 0.2 to 0.5, and the Price Elasticity becomes less negative from approximately -5.5 to -2.5.</p>	<p>Price sensitivity does vary over time. The high price sensitivity segment decreased in 1999 as the economy boomed, helping to take Franklins out of the market.</p> <p>The chart shows the percentage of sales in three price sensitivity segments: Low (blue), Medium (yellow), and High (red). The Y-axis represents the percentage of sales (0-100%). The X-axis represents the quarter of survey from Sep-1997 to Dec-2002. The High segment (red) is consistently the largest, followed by Medium (yellow) and then Low (blue). There is a noticeable decrease in the High segment in 1999.</p>

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