MarketDial

White Paper Series
The Case for Testing

Mitigating risk and optimizing opportunity with in-store testing

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Introduction

When I worked as a management consultant, I felt we often left clients in a tight spot. We would make several well-reasoned, analytical recommendations, but to really know if those suggestions were the right move for the business overall, there needed to be an experimentation phase – running pilots or tests. Without testing, clients weren't armed with enough information or the capacity to confidently move forward.

That gap was unsettling for me, and the desire to fill that gap has guided the development of the MarketDial platform. While progressively more companies are seeing the value of conducting in-store testing, many retailers are still banking million-dollar decisions on untested initiatives, giving those who are testing the advantage. Testing drives significant profitability, informing both incremental and macro changes throughout an organization.

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Be well-informed on projected lift

Retailers who rely on test data experience greater growth and higher revenue. There's one intuitive reason for this: informed decisions perform better than uninformed decisions.

Testing produces three different results that each instruct the decision-making process: proof of positive lift, proof of neutral lift, or proof of negative lift.

Proof of positive lift helps companies move forward with confidence, giving teams a defined rationale for their decisions. Sometimes retailers hold back on a lucrative idea because they are afraid it won't succeed; other times those on the ground have a hard time getting corporate approval because they lack the data needed to back their decision. Proof of positive lift resolves both these conundrums.

Proof of neutral lift can sometimes feel unsettling. If there is no net gain or net loss from implementing change, it can be challenging to assess if the change should be implemented. While neutral results make a decision less clear cut, they can – at the very least – alleviate anxiety about losses and help a company better evaluate if they still want to proceed with investing in an initiative.

Proof of negative lift can be the hardest to swallow. If a retailer really believed in an idea and wanted it to work — only to discover that it won't work — it can be profoundly disappointing. What is important to bear in mind, however, is that by testing an idea, they have limited the loss of money, time, and energy spent on a project that was ultimately doomed to fail. Testing, even when the results are not what were hoped for, precludes businesses from investing in weak initiatives, resulting in significant loss avoidance.

Did you know?

25%
of tests show positive lift.

50%
of tests show neutral lift.

25%
of tests show negative lift.

Companies who test have a significant advantage over companies that rely on trial and error.

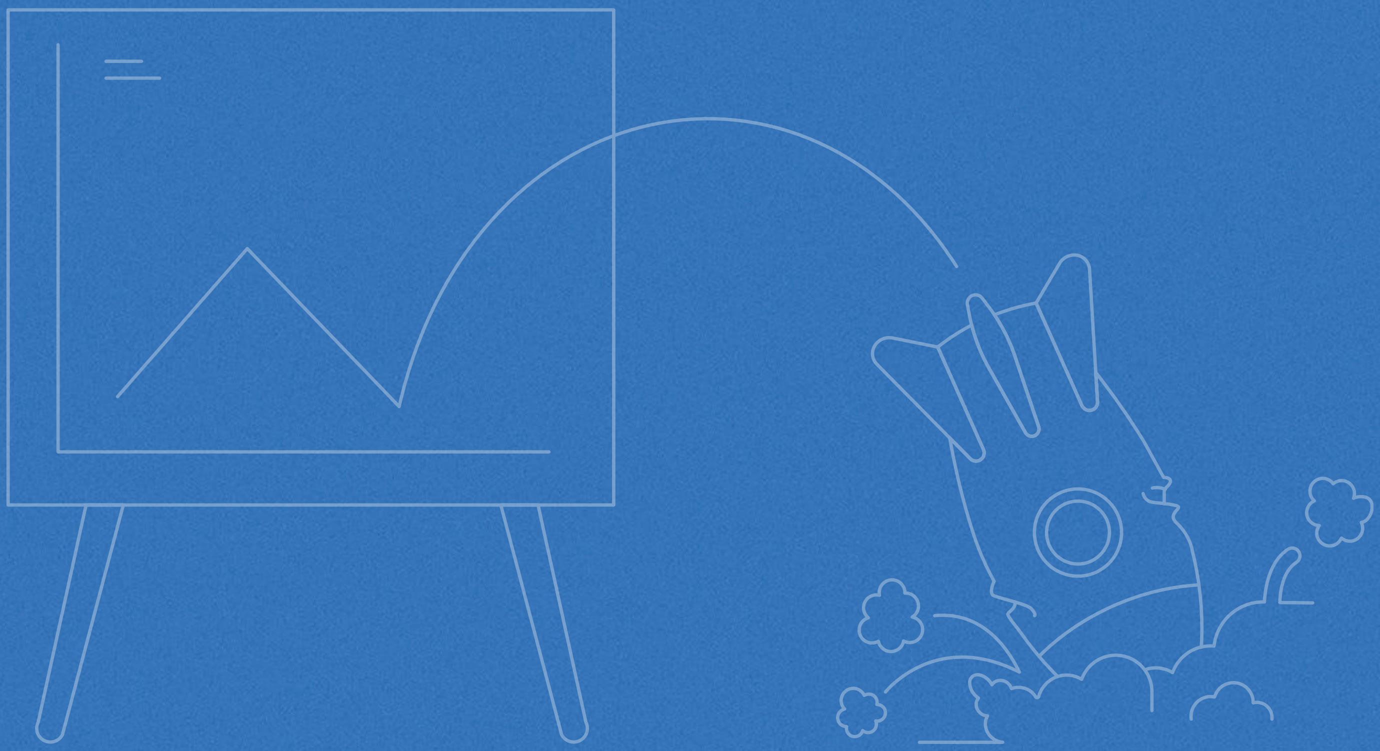
Understand risk-benefit ratios

Despite the clear-cut advantages to testing ideas before full implementation, many retailers are still reluctant to test in-store initiatives. Common misperceptions can prevent retailers from testing and obtaining the data that their e-commerce counterparts have access to.

We've found the primary reasons that retailers don't test include:

- **Cost** — believing the cost of testing is too high
- **Efficiency** — believing testing will take too much time
- **Ability** — believing it will be too difficult, requiring highly-trained data scientists
- **Habit** — believing intuition or what worked in the past will work in the future

Let's address each of these misperceptions, evaluating how benefits outweigh any perceived risks.



Perception vs. reality:

Cost

The perception:
Testing is too expensive

The reality:
Not testing is significantly more expensive; testing protects against investment losses.

Consider this, just one test can save hundreds of thousands to millions of dollars, depending on the scope and price of the initiative being tested. And if one test can save this much, imagine how much multiple tests could save.

Case in point:

One retailer believed that raising prices in higher income areas would increase revenue. They implemented the change without testing first and were surprised when it did not produce the anticipated results. Opting to backtest, they learned the initiative had resulted in -3% lift.

Did you know?

The more you save by testing before investing, the higher your ROI. A single MarketDial client has averaged a value add of over $25M per test, based on revenue earned from investing in strong initiatives and savings from avoiding the losses of weak initiatives.

“When you're a large organization, most of your capital investments are multi-million dollars, if you get one of those decisions right where it could have gone wrong, you've paid for it.”

— Doug Frank

Head of Space and Insights/General Manager for Data and Analytics, Woolworths

Perception vs. reality:

Efficiency

The perception:
Testing takes too much time and effort.

The reality:
Testing increases efficiency while not testing can lead to time-consuming errors.

The ease of testing depends on the methodology employed. Some businesses still rely on spreadsheets created from scratch to manage tests – a format that can be complicated, time-consuming, and imprecise. If a singular change needs to be tweaked at the end, it can take many hours to correct multiple spreadsheets. And, when using a spreadsheet methodology, often only one or two tests a year can be performed within an organization. But modern software solves this problem.

Software can facilitate an efficient testing process by:

- calculating timing and confidence level
- automating treatment selection and control site selection, and
- ensuring testing is completed expeditiously and accurately.

Automated software also allows multiple tests to be run simultaneously without polluting results from testing overlap. But when tests aren't run, unvalidated initiatives can get pushed through that create more complications, requiring extensive time and effort to resolve.

Case in point:

Old Navy's Bodequality campaign highlights how inefficient challenges arise from insufficient testing. While the desire to appeal to more body sizes was noble, Old Navy failed to acquire enough information on inventory before purchasing and stocking the various sizes, resulting in excess stock of oversized products and insufficient stock of regularly-purchased sizes. Shedding the overstock led to costly markdowns and diminished consumer trust in product availability. It will now take more time, more marketing, and more campaigning to restore consumer confidence in both the brand and the initiative.

Perception vs. reality:

Ability

The perception:
Testing is too difficult, requiring highly-trained data scientists.

The reality:
With the right platform and client support, testing is both automated and easy.

Old-school test-and-learn software applications can be difficult to use for non-data scientists, but modern software is intuitive and easy to use. The best software will also provide high-caliber client support to help users at all experience levels succeed. Whether retailers are new to testing or testing veterans, the process is now automated, enabling every user to test with ease. Additionally, well-designed platforms such as MarketDial allow for data to be democratized across the entire business, giving everyone access to uniform, digestible decision-making data.

Case in point:

MarketDial's clients who have established a mature testing culture run more than 20 tests per month. One big box retailer has incorporated in-store testing into all their key decisions, with approximately 300 employees using the platform throughout the organization.

Habit

The perception:
Intuition and past experience are reliable investment determinants.

The reality:
Intuition and instinct are subjective and fallible, and past successes don't always correlate with present needs. But numbers are objective and reliable.

Just because something has worked in the past, doesn't mean the current business climate will still support it. And, intuition will always be biased, making it highly vulnerable to miscalculation. A/B testing, backed by the scientific method, provides accurate, objective results.

Case in point:

While gluten-free products are known to appeal to those with gluten intolerance, the gut feeling (pun intended) is that adding GF to your product line can be costly. However, one retailer tested and learned that the addition of GF products increased overall snack sales. Another retailer believed that offering free coffee on Fridays would attract business and increase sales, but they discovered a significant negative lift by testing the promotion beforehand.

Learn from failure foresight

When companies are not testing regularly, they are making decisions absent of any form of proof. They most certainly are investing in unproductive ventures and missing out on productive ones. Knowing beforehand what will fail helps inform what will succeed.

The worst-case scenario is when a company makes unwise decisions, but it's not immediately obvious. It's almost never one big, bad decision that sinks a retailer. It's decades of small decisions. Without testing, retailers often won't try the big, scary things and will continue to invest in the old things that aren't really working anymore. Being able to look objectively at and acknowledge where things will fail is often the first step to success.

In an article from Harvard Business Review entitled "Why Organizations Don't Learn," Francesca Gino and Bradley Staats conducted a study with Chris Myers where they had participants complete two separate decision-making tasks. They discovered that participants who accepted responsibility for failing on the initial task had a much higher probability of succeeding the second time around. By learning from failure, they were able to make better subsequent decisions.

The beauty about testing is it allows for failure foresight, enabling businesses to learn from predicted loss without having to experience actual loss.

Did you know?

Testing gives you the information you need to:

Utilize your data to make the wisest decisions

+

Eliminate risk with failure foresight

+

Maximize opportunity with bonafide evidence of success

Know if the dial should go to eleven

In the rockumentary *This is Spinal Tap*, the character Nigel Tufnel is excited about an amplifier with [a dial that goes to eleven] rather than the typical dial that only goes to ten. He shows it to Marty DiBergi who responds, "Why don't you just make ten louder, and make ten be the top number and make that a little louder?" Both ideas have merit, despite a certain element of humorous absurdity to the entire conversation.

At MarketDial, whether the dial on your product goes to eleven is moot. Our question is, have you tested it against dials that only go to ten to see which consumers prefer? Because, unless you test, you never fully know beforehand if that decision you thought would be great, will instead become immortalized as ridiculous – just as you never know if that concept that initially seemed silly will be amplified by pop culture for years to come.

With testing, you always know before you (rock &) roll.

Why MarketDial?

More than 100 leading companies and global brands rely on MarketDial to help them create a culture of experimentation with intentionally easy A/B testing. MarketDial's simple interface makes asking "what if?" the cost-effective protocol for intelligent action. [Learn how now]

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Morgan has extensive experience advising organizations on how to solve business problems as a management consultant and venture capital investor. When working in BCG's Consumer Practice Area, he helped leading companies across the globe in essential strategies such as: Fast Moving Consumer Goods (FMCG) go-to-market reorganization, construction and launching of pricing zones, private equity buyouts, retail transformations, and more. Morgan has a degree from BYU in Strategic Management and Economics.