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Quality In Customer Analytics

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Database - Supported Pricing

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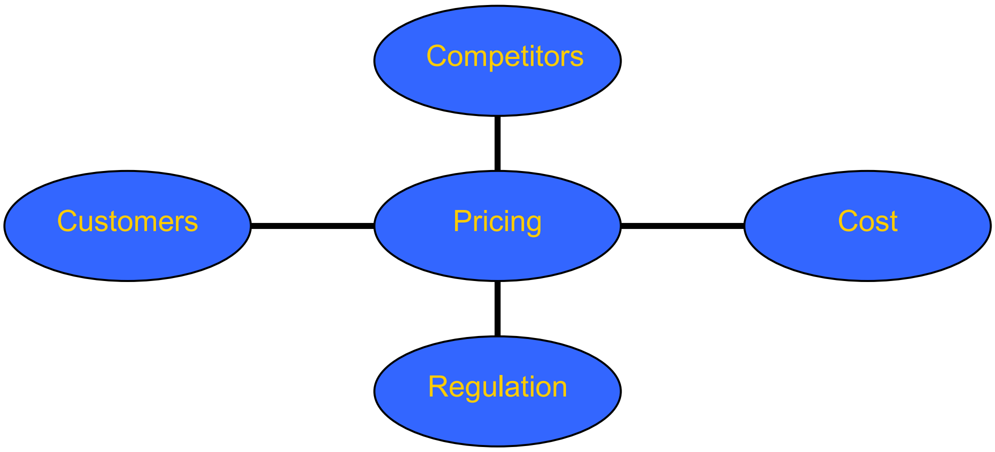
1. Background

Pricing is a basic marketing strategy used by marketing executives. It is also one of the most notable factors to influence the ARPU (Average Revenue Per User).

Pricing is affected by a number of key factors:

Competitors, costs, customers and regulations.



Whenever we plan a price update, we must first evaluate our business plan according to each of the factors in the chart above:

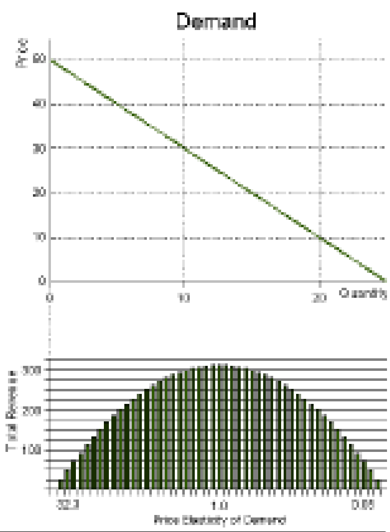
- Does our pricing coincide with existing rules and regulations?
- How will competitors react?
- How will customers react?
- How would future income be affected?

This article presents an approach to pricing analysis done prior to a price update or the pricing of a new product, based on customer information registered in the organization's database.

The article will feature ways of using existing data for the purpose of pricing products and will detail the advantages of this method over existing pricing approaches.

2. Price Elasticity

Price elasticity depicts the relationship between the product's price and the demand for that product. The following is a graph illustrating price elasticity.



The general approach for analyzing price elasticity recommends constructing a model that computes for the entire customer base, the relationship between price and demand, and consequently produces a forecast of changes, new prices and their influence on the demand.

Moreover, research and market analyses (mainly on new product pricing) are used in order to examine the perceived value of the product/service for the customer. These analyses use questionnaires and surveys to explore what the realistic pricing ranges are.

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3. The Problems with the Traditional Approach

The correlation between the graph curves does not always help to find the cause for that correlation:

- Though important, the price isn't always the reason for changes in demand
- The price can also be a result of the demand (e.g., strong demand will reduce production costs, thus reducing retail prices).

The prevalent pricing method today, both locally and internationally, differentiates between product/service prices according to different criteria, such as retail vs. wholesale pricing, special discounts for certain populations, special offers for returning customers, etc. As a result, there is vast variety of prices in the market and it is highly plausible that customers in each pricing-level will act differently than others. Moreover, radical price fluctuations make it difficult to study the history of pricing and demand for the purpose of constructing the above-mentioned model.

4. Using the Organization's Existing Database

- Indicate the dates in which pricing changes were fed into your Data Warehouse
- Draw information about usage or purchases made during said price changing periods
- Perform a qualitative analysis of the data, in order to defuse influences of:
  - Seasonality
  - Trends (product launches, displays etc.)
  - White noise – environmental factors that may have influenced product demand, e.g. inventory shortage, competition activities, etc.
- Break up the results according to existing segments in the organization for which you apply continuous marketing activities.
- You can research and survey specific segments or changes, in order to support the model.

The result of these steps will be a more accurate price elasticity model that incorporates specific customer information and reactions to price changes.

Using this model for a specific product or service will enable you to determine the relationship between different customer segments, and identify the products/services for which there is higher/lower elasticity, thus enabling you to increase or reduce the prices accordingly.

5. Conclusion

With the help of new technological innovations we can accumulate more detailed information about our customers, their purchases and their usages of our products and services.

Our customer database also includes information that enables us to segment our customer base (e.g. retail, wholesale, seniors, etc.).

Cross-referencing these two elements will enable us to better determine our ability to change the prices of our products and services.

Based on this method, we can extend the product/service price according to the different customer segments, and maximize the potential of pricing updates.

Undoubtedly, this model is quite complex, and requires time and resources. Nevertheless, the results enable us to drastically increase our ARPU and make more accurate projections as far as the influence of pricing changes on income.

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About Synergy

Synergy is an international consulting company, specializing in Analytical CRM solutions.

Synergy offers marketing oriented business ventures, formed by a team of leading local and international industry experts.

Synergy aims to provide its customers with the ability of acquiring commercial advantages by informative analysis of their customers' shopping data.

Synergy has vast experience in working with leading commercial organizations, both locally and internationally, and its clientele includes foremost industry leaders in the communications, financial and retail fields.

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