Pricing & Discounts

MAXIMIZING REVENUE WITH PRICING STRATEGIES
Maximizing Revenue With Pricing Strategies

$ Setting your price.

Increasing Average Price: Bundling & Smart Discounts

Capturing Revenue when you Normally Wouldn’t
Price Setting Mechanisms

Traditional mark-up pricing. Marking up production costs, calibrating against competitors’ prices.

Value-based pricing. According to the offering’s worth

Anchor pricing. Common cognitive bias to position & sell up.

Name your own price, Best known from Priceline.

Auctioning. (Google) bid for offerings -- yielding prices the seller would never have had the audacity to name.

Demand-driven pricing or Dynamic pricing. Lets fluctuations in aggregate demand drive changes in price. (airlines, hotels)
Case Study
Anchor Pricing

EXPERIMENTATION IS KEY!

Test #1: Premium Option

Premium Option

$1.80 $2.50
20% 80%

4 out of 5 chose premium option.

Test #2: Two Cheaper Options

Two Cheaper Options

$1.60 $1.80 $2.50
0% 80% 20%

Oops. Ratio upended.

Test #3: 1 Premium, 1 Value

1 Premium, 1 Value

$1.80 $2.50 $3.40
0% 80% 20%

It worked!
Before Anchor Pricing

CANYON SHUTTLE SERVICE
STARTING 05/04/19
$20
11%

CANYON SHUTTLE & BIKE RENTAL
STARTING 05/04/19
$40
89%
After Anchor Pricing

175 more Shuttles Run generated 33% INCREASE in Rev

CANYON SHUTTLE SERVICE
STARTING 05/04/19
Book Now
$22.99
7%

CANYON SHUTTLE & BIKE RENTAL
STARTING 05/04/19
Book Now
$42.99
87%

E-BIKE & CANYON SHUTTLE
STARTING 05/04/19
Book Now
$62.99
6%
Value Based Pricing

Value Creation
Innovate with unique offerings.
Add more value than the other guy.

Value Capture
Capture value for these innovations!
Premium pricing.
Raft Trips Before:

Full day trip was \textit{least} profitable

\textbf{The Full Day Raft Trip Dilemma}

- Price on full day trips had very little to no margin
- Utilized resources that could be taken on more profitable trips
- Difficult to differentiate from competition
- Race to the bottom on pricing for customers
Raft Trip After

Increasing price drove positive consumer behavior >> revenue increase

Before : $85 Base Price

After : $108 Base Price
With an 82% decrease in guests served

Actions:
• Increased price on Full Day trip by 15%

Result:
• Demand dropped for this product and increased on profitable items
• 12% increase in rafting revenue while servicing fewer guests (lower costs w/more margins)
Increasing Average Price: Bundling & Smart Discounts
WHAT IS MY AVERAGE PRICE?

Total number of activities sold \[ \div \] Revenue
WHO CARES?

Increasing Average Price = More Revenue
BUT, THERE’S MORE...

Changes in price premiums can be signs of changes in the relationship between supply and demand.
POSSIBLE CAUSES TO FALLING PREMIUMS

- Pricing
  (Too Low or Overly Aggressive Group Sales)

- Excess or Counterproductive Promotions

- New Competition
POSSIBLE CAUSES

- Excess or Counterproductive Promotions
- Pricing (Too Low or Overly Aggressive Group Sales)
- New Competition

Let's Review…
DISCOUNT DILEMMA

They can bring a stampede of buyers through the door faster than just about anything else.

But...they can also destroy price integrity with blinding speed.

It's easy to miscalculate the magnitude of the negative impacts.
THE SLIPPERY SLOPE OF DISCOUNTS

TRAIN CUSTOMERS TO WAIT FOR THE DEAL:
Poor discounting practices can train buyers to expect a markdown (i.e. daily deals)

NOT GAINING NEW, LOYAL CUSTOMERS:
Instead appealing to extreme customer who will go to any length to get a discount and follows deals with no loyalty. (HBR)

CAN HURT REVIEWS:
Study shows discounting can hurt your reviews (on TripAdvisor, for example).
6 TIPS: HOW TO BE STICKY VS. SLIPPERY

“Free ice cream with trip” vs. “30% off your trip.”

Try -it Discount: Raft on Mondays for less.

Increase your transaction size.

New Customer Product Discount

Provide something extra free

Prepay

“Buy in January for April ticket!”

Add lower value product at lower pricing.

Bundled Deals

Adaptive Pricing vs. Discount

15%-20%

The discount sweet spot for attracting loyal customers (HBR).
Before: Discount Strategy & Tactics

Fear based

3rd Party Digital Coupon campaigns to drive volume

Dropped price on group trips out of fear

Reacted to competition and their pricing

3rd Party charges 15%+

Made little money on groups

Less control over profitability even though experience was more valuable

Discounting on top of that 20%+

Groups of 16 or more received 20% discount

= Slim to no margin
### After: Discount Strategy & Tactics

**Pricing with confidence in brand & experience delivered**

<table>
<thead>
<tr>
<th>Eliminated 3rd Party Coupon Site Campaigns</th>
<th>Group pricing is at healthier margin</th>
<th>No longer reacting to competition</th>
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</thead>
<tbody>
<tr>
<td>Improves brand</td>
<td>Group trips are profitable now:</td>
<td>Setting prices based on</td>
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<tr>
<td></td>
<td>• 10% - Groups 8 to 15 ppl.</td>
<td>value delivered vs. fear</td>
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<td>• 15% - Groups 16 or larger</td>
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<td>• Appr. 25% - Schools groups and nonprofit</td>
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 Packages & Upsells

FIND WAYS TO INCREASE YOUR CUSTOMERS CART!

Upsells
Offer clear upsells before they get to checkout (products or additional ticket types).

Packages
Increase the order size when they originally wouldn’t have.  
Birthday parties * Group Targeting * Family packs
Capturing Revenue
When You Normally Wouldn’t
The Pre-Sale

What:
Gifts and Pre-Sales

Why:
Generate cash flow during times of otherwise slow cash flow
Hedge against bad weather
Even with discounted offering of 20% redemption is 20-30%, so the discount is net 0
Typical customer with gift cert redeemed is bringing friends/family with them

When:
Consumer buying patterns (In-season, holidays, ~2-3 months pre-season)
Advance Sales: Best Practices

Sell while still in current season!
- Still relevant with customer base, in “Summer” mindset vs. catching them in winter mode

Email still works…really well
- Example:
  - Sent 13k emails total for 3 locations in month of October
  - High frequency — almost 20 emails in October
  - Extremely low unsubscribe rate
  - 80/20 on email vs. social advertising

FOMO is real…deadlines work
- 70% of sales were purchased within 2 days of deadline ending

Still more to capture!
- 97% of customer base/list did NOT purchase yet
Summary

Set Prices with Confidence
Experiment with pricing and try new mechanisms like anchor, value and forms of dynamic pricing

Get creative with raising your averages (and revenue)
Smart Discounts
Increase the sale with packaging
Pre-sales

Don’t forget to focus on the presentation of pricing.
CLARITY is key.

It works! Confidence in price position is way up
Reviews are glowing
People want to pay more for a better service or product
Profitability has increased in two years (22% up for biking, 6% up for rafting)