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Streaming Slowdown Making Players Re-think Offerings to Prevent Subscription Churn

by: Lisa Jaeger and Jonathon Grant

Simon-Kucher's latest Global Streaming Study reveals that people are not increasing their streaming hours any more. And consumers are not only stepping back from streaming 'more' but also battling subscription fatigue and increasing price sensitivity. Can streaming service providers prevent subscription churn and still gain customers in this market? Lisa Jaeger (lisa.jaeger@simon-kucher.com) is a Partner at the Frankfurt office and Jonathon Grant (jonathon.grant@simon-kucher.com) is a Senior Director at the London office of Simon-Kucher & Partners.

At a Glance

- Global growth in time consumers spend streaming has slowed
- Consumer budgets are falling
- Subscription fatigue is on the rise
- Price is the most important factor driving consumer choice, followed by the breadth of content available

Consumer streaming habits are changing

The results are in – people are not increasing their streaming hours despite easy access to a vast range of content.

If half of respondents last year were spending more time streaming than the year before, this year that number is down to 40 percent. However, consumer streaming behavior has remained fairly consistent as there's no major changes in the time or type of content being streamed. For example, both films and series are still the most watched content. 78 percent of consumers spend more than two hours per week watching films while 70 percent spend the equal amount of time watching TV shows. Only live events are significantly lower at 41 percent.

Our Global Streaming Study for 2023 reveals that India is the only country where the number of people streaming "more" has increased. On the other end, China has the sharpest decline in respondents streaming "more," followed by Brazil and Germany.

So, what has brought about this change in people's streaming habits? Different factors could

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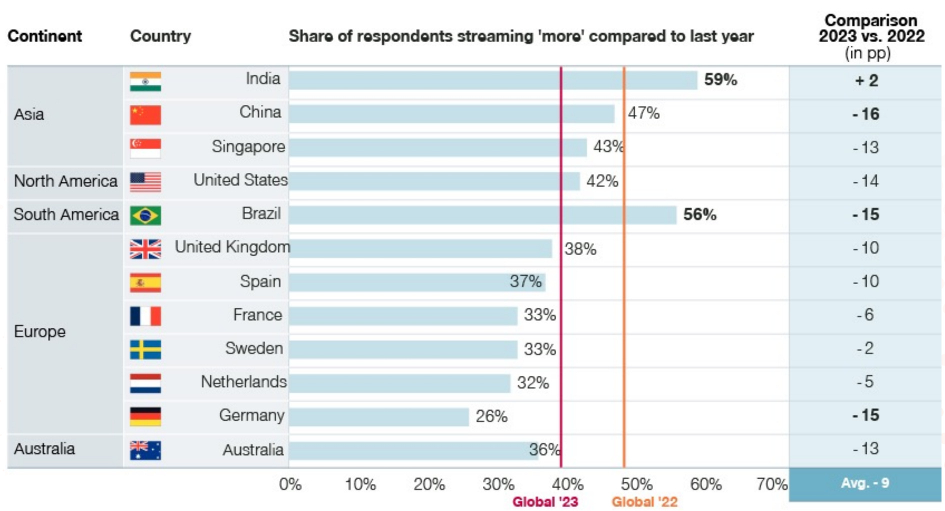

Question: On an overall level, do you currently spend more or fewer hours per week watching streaming content compared to last year?
Source: Simon-Kucher Global Streaming Study 2023; n = 11,910

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be tied to this: people going out more post-pandemic, cutting down subscriptions due to the cost-of-living crisis, perceived lack of quality content, etc.

Free online services, such as Amazon's ad supported Freevee, are also becoming increasingly popular with free services now accounting for 36 percent of total time spent streaming (up from 29 percent last year). It is slowly catching up to paid subscriptions which, at 41 percent, is still the most popular provider category, regardless of content type.

Increased competition leading to market saturation and loss of subscribers

Lockdown led to a tremendous growth in streaming as the number of video streaming services exploded. Netflix and Amazon Prime Video aside, people now have a wide array of options to choose from in the form of Disney+, Apple TV+, and Paramount+, among others.

But while there are plenty of streaming platforms for viewers, competition is intense for providers who must hold consumer attention with engaging content and attempt to prevent subscription churn.

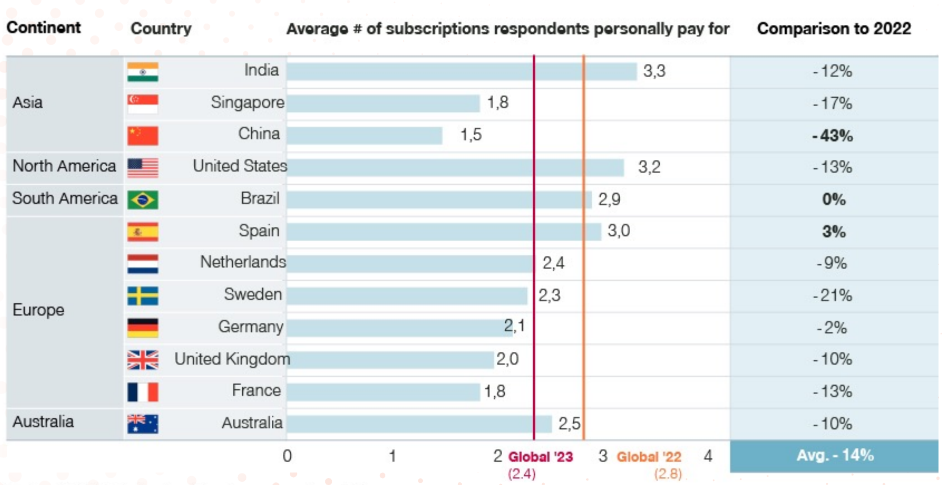
And our research indicates that the overall budget that consumers are willing to spend on streaming services has gone down. People are more inclined to cancel their existing subscriptions when they add a new service. 62 percent of respondents would either cancel a subscription or make savings elsewhere if they were to sign up to a new streaming platform.

All these suggest market saturation. In fact, the signs have been there since last year with record subscriber loss, staff layoffs, slow growth for those platforms, etc., all pointing to a challenging period for streaming service providers.

Consumer budgets are dropping, and price sensitivity remains high

1. Subscription fatigue

This is reflected in our research that shows the average number of streaming subscriptions held per consumer is down by 14 percent. At 43 percent, China has the biggest drop in streaming subscriptions with more respondents considering canceling a subscription in the next year. Brazil and Spain are the only countries that have not seen a decline in streaming subscriptions.



Question: Which of the below subscriptions do you personally pay for?
Source: Simon-Kucher Global Streaming Study 2023; n = 10,258

This year, too, price remains a leading reason for cancellation, indicating high price sensitivity in customers. Two out of five respondents mentioned saving money as the biggest reason for canceling their streaming subscription, and a third of respondents who cancelled said they did so because of the high price. A further 26 percent said they cancelled their subscriptions because they had too many.

Unsurprisingly, those considering cancellations next year had the same reasons – saving money (43 percent), too high prices (41 percent), or too many subscriptions (30 percent). It is interesting to note here that 20 percent of those considering canceling are doing so because of a perception of low content quality. Other reasons include poor user experience and content overload at 15 percent each.

Chinese respondents, as previously mentioned with the largest share of likely cancellations, indicated that finishing content they signed up to watch was the main churn reason.

2. Drop in streaming budgets

Streaming budgets are also declining. The US has the highest willingness to pay (WTP) per subscription while China has the lowest. On a global level, WTP per subscription decreased on average by almost 30 percent from the previous year while total WTP on streaming subscriptions declined by almost 10 percent.

This significant drop in WTP per subscription relative to the overall streaming budget highlights a major drawback of content fragmentation. Consumers feel the

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need to pay for more streaming services to access a wider range of content that restricts how much they can spend on individual streaming services.

If we compare streaming budgets by region:

1. Asia

- Singapore and India – almost used up
- China – exceeded

Singapore's WTP for both one and all subscriptions has decreased by five Singapore dollars. India is in a similar position as WTP has reduced by 101 Indian rupees (INR) for one subscription and 100 INR for all subscriptions. China displays the sharpest decline as WTP for one subscription is down by 24 Chinese Yuan (CNY) and all subscriptions by 10 CNY.

2. North and South America, and Australia

- Australia – almost used up
- US and Brazil – exceeded

Respondents' WTP in Brazil for one subscription decreased by five Brazilian reals while it remained constant for all subscriptions. It was similar in Australia as WTP for one subscription was down by five Australian dollars, and WTP for all subscriptions remained consistent. In the US, WTP for both one and all subscriptions decreased by five US dollars.

3. Europe

- Germany, the Netherlands, the UK, and France – almost used up
- Sweden and Spain – exceeded

Germany's WTP for both one and all subscriptions have decreased by five euros (EUR). The streaming budget was comparable for consumers in the UK, the Netherlands, and France. Consumers' WTP for one subscription went down by three pounds sterling and three EUR, respectively, while WTP for all subscriptions remained unchanging when compared to last year.

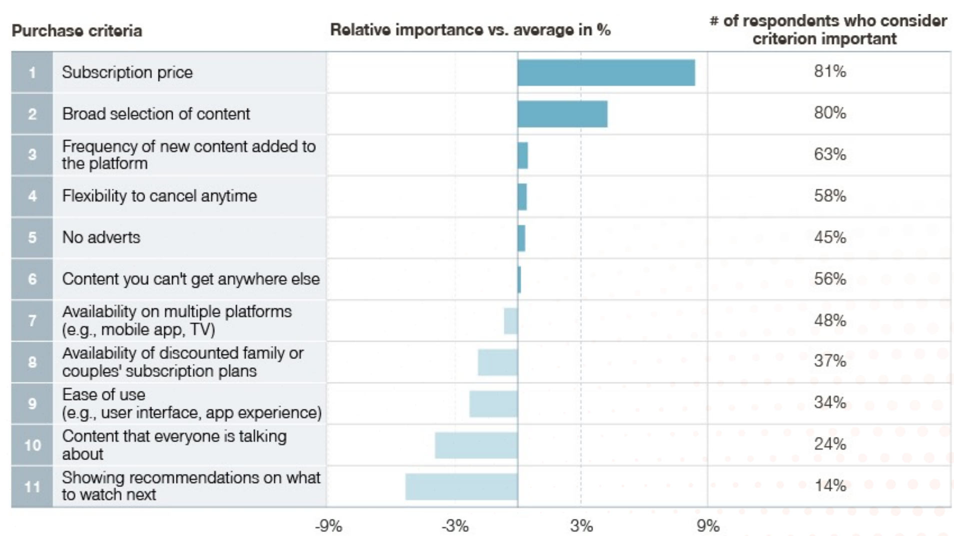
In Sweden, the budget has already been significantly exceeded. Where WTP for one subscription has declined by five Swedish kronor (SEK), it has fallen by 50 SEK for all subscriptions.

The situation is a bit different in Spain. While WTP for one subscription decreased by five EUR, WTP for all subscriptions increased by one EUR.

What are the key purchasing criteria when choosing a streaming service provider?

Simply put: Price is the most important purchase criterion, followed by breadth of content available and the frequency of new content added to the platform.

More than four out of five respondents selected subscription price as most important, pushing up its significance by four percent this year. Consumers also showed more inclination toward ad-supported packages. Netflix and Disney+ are two of the streaming providers that have introduced these ad-supported plans. Cheaper than the regular ad-free tiers, these new plans enable people to catch the latest and best films and shows while paying less.



Question: How important are the following criteria when deciding whether to purchase a streaming subscription?
Source: Simon-Kucher Global Streaming Study 2023; n = 10,956

Forging ahead despite challenges

Streaming service providers will continue to contend with market saturation and increasing price sensitivity. But despite these challenges, the core task remains – how to keep customers engaged and prevent subscription churn.

Offer customization appears to be the key to success. The streaming industry can be divided into three user segments: price-sensitive, price-value oriented, and value-oriented. Making up 43 percent of respondents, the price-value oriented user segment is the largest, followed by 38 percent price-sensitive and 19 percent value-oriented user segments. In today's landscape, streaming

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service providers must find the balance between price and value when optimizing packages. They can target the price sensitive segment with flexible, low-priced packages. And for those that value content over price, providers can offer premium packages with extensive and frequently renewed content, and flexible streaming options.

While existing players do have some room for price increases in some countries, it's crucial to provide quality content to match the price hike. For new streaming companies, the volatile market situation makes it imperative to have differentiated offers for different customer segments.

The bottom line is players must do everything they can to retain existing subscribers by building on a strategic retention management system. If streaming service providers have only limited room to grow prices and are facing an increased churn risk, they need to focus on their existing customer base. Identify those most likely to leave and invest in ways to keep them engaged. Rather than working to constantly procure new clients and increase customer acquisition costs, it's more beneficial to emphasize increasing customer lifetime value.

MaxDiff in Price Research

by: Finn Hansen

MaxDiff is a versatile and powerful research technique that can provide valuable insights for new product development. By understanding its theoretical underpinnings, advantages, and applications, as well as the challenges and limitations, researchers and product developers can effectively leverage MaxDiff to make informed decisions and create successful products that resonate with their target audience, as the author explains. Finn Hansen is the Co-Founder of PriceBeam. He can be reached at finn.hansen@pricebeam.com.

MaxDiff, or Maximum Difference Scaling, is a powerful research technique used to measure preference or importance of various attributes, features, or items. It is also known as Best-Worst Scaling and has been widely adopted in marketing, product development, and social sciences. In new product development, it can be used to identify the most valued features, refine concepts, and optimize marketing messages. This article provides an in-depth understanding of MaxDiff, its theoretical underpinnings, and its application in new product development.

1. Theoretical Underpinnings of MaxDiff

MaxDiff is grounded in Thurstone's Law of Comparative Judgment, which posits that when people are asked to compare items, they can make more accurate judgments of differences between items than when they are asked to assign an absolute value to each item. In other words, people are better at ranking or comparing items relative to one another rather than assigning a numerical value to them.

Building on Thurstone's work, Louviere (1991) developed the MaxDiff approach, which involves presenting respondents with a series of sets, each containing a fixed number of items (usually 4-6). Respondents are asked to select the best and worst items in each set, based on their preferences or importance. The data collected through this process are then analyzed using advanced statistical techniques to produce preference scores for each item.

2. Advantages of MaxDiff over Traditional Rating Scales

MaxDiff offers several advantages over traditional rating scales, such as Likert scales or semantic differential scales. Some of the key benefits include:

1. **Improved Discrimination:** MaxDiff forces respondents to make trade-offs between items, leading to greater discrimination between the items and a more accurate reflection of respondents' true preferences or importance.
2. **Reduced Scale Use Bias:** Traditional rating scales are prone to scale use bias, where some respondents tend to use only a limited range of the scale (e.g., only using the extreme points). MaxDiff eliminates this bias by forcing respondents to choose the best and worst items within each set.
3. **Cross-Cultural Comparability:** As MaxDiff does not rely on absolute numerical ratings, it is less affected by cultural differences in the use of rating

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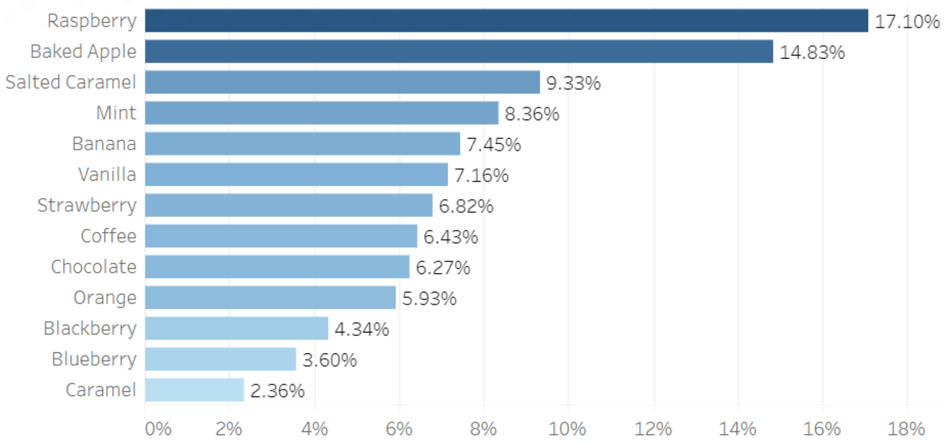
scales, making it more suitable for cross-cultural research.

4. **Minimal Context Effects:** The forced choice nature of MaxDiff reduces the impact of context effects, such as primacy or recency effects, which can influence the results of traditional rating scales.

3. Applying MaxDiff in New Product Development

MaxDiff can be used at various stages of new product development to generate valuable insights that can guide decision-making.



Some of its applications include:

1. **Identifying Key Features**: By presenting respondents with a series of sets containing various product features, MaxDiff can be used to identify the most valued features that should be included in a new product. This information can help prioritize development efforts and allocate resources effectively.
2. **Refining Product Concepts:** MaxDiff can be used to test different product concepts or prototypes by asking respondents to evaluate the best and worst attributes of each concept. The results can help identify which elements of the concepts are most appealing and which need improvement, allowing for informed modifications and refinements.
3. **Optimizing Marketing Messages:** MaxDiff can also be used to identify the most persuasive marketing messages by asking respondents to evaluate a series of potential messages. This information can be used to craft marketing campaigns that resonate with the target audience and drive product adoption.
4. **Segmenting Customers:** By examining the preference scores generated through MaxDiff analysis, marketers can identify distinct customer segments with varying preferences or priorities. This information can be used to tailor product offerings or marketing messages to different segments, improving the overall effectiveness of marketing efforts.

4. Conducting a MaxDiff Study

To conduct a MaxDiff study for new product development, follow these steps:

1. **Define the Objective:** Clearly outline the research objective and determine how the results will be used in the product development process. This will guide the design of the study, the selection of items, and the interpretation of results.
2. **Select the Items:** Identify a comprehensive list of items (attributes, features, messages, etc.) relevant to the research objective. The number of items should be manageable, typically between 10-30, to avoid respondent fatigue and ensure reliable results.
3. **Design the MaxDiff Experiment:** Create a balanced experimental design that ensures each item appears an equal number of times and is paired with every other item at least once. This can be achieved using specialized experimental design software or consulting an expert in experimental design.
4. **Administer the Survey:** Distribute the survey to a representative sample of the target population, ensuring a sufficient sample size for reliable results. The survey can be administered through various channels, such as online, in-person, or via phone interviews.
5. **Analyze the Data:** Analyze the collected data using advanced statistical techniques, such as multinomial logit modeling, hierarchical Bayes estimation, or latent class analysis. These methods estimate preference scores for each item and can also account for individual-level differences or segment preferences.
6. **Interpret the Results:** Examine the preference scores and rank the items according to their importance or preference. Identify patterns or differences across customer segments, if applicable, and draw conclusions that inform the product development process.
7. **Apply the Insights:** Use the results to guide decision-

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making in the product development process, such as prioritizing features, refining concepts, or tailoring marketing messages to different segments. Monitor the impact of these decisions on product performance and make adjustments as needed.

5. Challenges and Limitations of MaxDiff

While MaxDiff offers numerous advantages over traditional rating scales, it is not without its challenges and limitations:

1. **Cognitive Burden:** MaxDiff can be cognitively demanding for respondents, especially if the items are complex or the number of sets is high. This can lead to fatigue, satisficing, or random responding, which may impact the reliability of results.
2. **Presentation Order Effects:** Although MaxDiff reduces context effects, presentation order effects may still occur if the order in which sets are presented influences respondent choices. To minimize this, consider using a balanced design and randomizing the presentation order.
3. **Interpretation of Results:** The preference scores generated through MaxDiff are relative, not absolute, making it challenging to determine the absolute importance or preference for an item. Additionally, the scores are on a ratio scale, meaning that only the relative differences between scores are meaningful, not the absolute values.
4. **Noisy Data:** MaxDiff data can be noisy due to random responding or other factors. Advanced modeling techniques can help account for this noise, but the quality of the results will depend on the quality of the data collected.

6. Conclusion

In conclusion, MaxDiff is a versatile and powerful research technique that can provide valuable insights for new product development. By understanding its theoretical underpinnings, advantages, and applications, as well as the challenges and limitations, researchers and product developers can effectively leverage MaxDiff to make informed decisions and create successful products that resonate with their target audience.

Combating Anchoring Bias in B2B Sales

by: Teng Yang

Humans tend to give undue weight to the first piece of information they receive. In the context of B2B sales, this means that if a buyer is presented with a low price at the outset, it can anchor the entire negotiation to a lower price point. This can make it difficult for a seller to negotiate a higher price. In this article, the author presents three common scenarios in which customers anchor on a low price and provides strategies pricers can employ to combat this anchoring behavior. Teng Yang is a Senior Pricing Consultant at Holden Advisors. He can be reached at tyang@holdenadvisors.com.

As much as we like to think that business-to-business (B2B) transactions are completely rational and devoid of biases, the truth is that buyers are not always purely objective in their decision-making. One of the biases that can impact B2B sales is anchoring bias.

Recognizing the bias

Humans tend to give undue weight to the first piece of information they receive. In the context of B2B sales, this means that if a buyer is presented with a low price at the outset, it can anchor the entire negotiation to a lower price point. This can make it difficult for a seller to negotiate a higher price. Once a price is set, it becomes the anchor price for the next transaction, which will impact the lifetime profitability of the customer.

There are three common scenarios in which your customers anchor on a low price. One is when a firm has a legacy pricing structure in place, where the prior deal price is available and commonly referenced. The second is when a buyer is exposed to a low-value, low-priced product, either from a competitor or from your own offerings. The third is through discounting. If you discounted in the past, the buyer expects the price to stay at that discount.

How to reset the field

To combat anchoring bias, it's important to force buyers to

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reassess the value of your offering from a fresh perspective. This can be done by refreshing your offering, whether by:

- Improving your product
- Reconfiguring your product
- Changing the metric (unit of sale)

Improving your product offering can require a significant investment in product development, but it can result in capturing a bigger share of the value pie. Depending on your product offering, you may be able to position your new product as part of a total solution, rather than just an add-on. This can increase the perceived value of your offering in the eyes of the buyer.

Reconfiguring your product for different markets can be a cost-effective way to improve customer fit and shift how your customers evaluate your product. By offering different feature sets for different customer segments, you can ensure that your customers are not forced to purchase unnecessary features and improve sales volume as a result.

RECONFIGURING YOUR PRODUCT FOR DIFFERENT MARKETS CAN BE A COST-EFFECTIVE WAY TO IMPROVE CUSTOMER FIT AND SHIFT HOW YOUR CUSTOMERS EVALUATE YOUR PRODUCT.

Changing your pricing metric can also be a way to reset your customers' value perceptions. By switching from a per-copy pricing model to a per-user pricing model, for example, you can remind your customers of the value they are receiving from your product.

None of these actions will matter if the sales team cannot deliver the message to shift customers away from the anchor price. To communicate effectively will first require a concerted communication plan and confident communications of your message. Your customer should understand the changes you are making and why your offering should be viewed differently than the low-price anchor.

In conclusion

Combating anchoring bias is not trivial. It's important to force buyers to reassess the value of your offering from a fresh perspective, whether by refreshing your offering, reconfiguring your product, or changing your price metric. By effectively communicating the value of your offering to buyers, you can increase your chances of landing a higher price.
To execute these changes successfully will require a strategic effort and support from senior leadership.

Price Optimization: Why it's Important and How it Works

by: Paul Sansom

In this article, the author explains what price optimization is, how it works, how to ascertain if price optimization is right for you, and how to identify the right path to a successful implementation. Paul Sansom (psansom@vendavo.com) is a Denver-based Business Consultant focused on understanding market challenges, building business cases, and driving business value and outcomes for Vendavo customers. Paul has a wide range of expertise in business development, forensic market analysis, CRM management, marketing communications, field engineering, and corporate business strategy. He will be leading a breakout session entitled "Are You Prepared for the AI-Driven Pricing Revolution?" on October 12th at the PPS 34th Annual Fall Conference in Atlanta.

Things have changed A LOT since May 2021 when this article was originally published.

Where Picasso had his Blue period, we should call the last couple of years the Murphy's Law Period. Whatever could happen, did happen: the worst of the COVID-19 pandemic, runaway inflation, exploding interest rates, see-sawing energy prices, domestic political turmoil, crypto's meteoric rise and catastrophic meltdown, a (still ongoing) land war in Europe, billionaires behaving badly, dangerous and deadly storms, and the list goes on. Hell, a giant boat clogged up the Suez Canal and almost brought the global supply chain to a halt. You see what I'm talking about?

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Each of those events alone could have caused issues for business, but all together? AT THE SAME TIME?!

Companies used to annual or biannual price changes were subject to many more than what their organization could handle, and trusted legacy systems and processes began to strain, stutter, and stop under that pressure. It exposed a lack of automation, an inability to quickly or proactively respond to market impacts, and an ever-widening technology gap. In increasing frequency, Commercial and Pricing Leaders began to ask themselves 2 questions: **What technology is out there and is it right for us?**

These questions invariably lead to another issue, one that I like to call The Three Stooges Effect, named for the scene where Larry, Curly, and Moe all attempt to go through a door together and get stuck. There are many different directions that organizations can go, but are often paralyzed by indecision, competing priorities, and a lack of strategic direction.

One of the first trails that people often tread down is **price optimization**. Two words that, when put together, have taken on an almost-mystic quality in the past few years. Many people use them confidently, but far fewer use them correctly.

Often misappropriated with other elements of the commercial excellence suite, **few organizations start their journey with an appropriate understanding of what price optimization is, how it works, or if it is "right" for them**.

A senior executive at a company with an effective price optimization program once told us that just one person in their entire organization understood how their pricing solution worked. He then went on to explain, more accurately, there were actually probably two people – each of whom half understood.

This lack of understanding is common among companies. The executive's rationale for being okay with the fact that no one understood the solution was also commonplace. The company was doing well and they were realizing an improvement in profitability. Did it matter that they didn't really know how it worked?

Such a lack of understanding can really limit success. And of course, any knowledge gaps are likely to kill the potential for continued or added improvements over time. **That's why the importance of pricing optimization programs must be understood – and believed in – by everyone who uses them**.

When utilized effectively, **price optimization can be one of the biggest barriers to margin erosion and lost business brought on by market factors**. By understanding your customers' Willingness-to-Pay in a variety of market conditions and placing guardrails to prevent any course deviation, your organization can implement a dynamic pricing solution that fits any pricing methodology or commercial strategy.

Within this article, we seek to explain 2 things: (1) what price optimization is and (2) how it works, and as our collective understanding of the subject improves and we realize that SkyNet will not be in control of a company's prices, you will also begin to ascertain if price optimization is right for you and put you on the right path to a successful implementation.

What is Price Optimization?

Price optimization is the practice of deciding upon the most effective pricing for a product or service. It is the process by which an organization seeks to find the optimal price that their customer is willing to pay for a product. Not so high that they risk losing that customer's business and not so low that they sacrifice margin, but just right.

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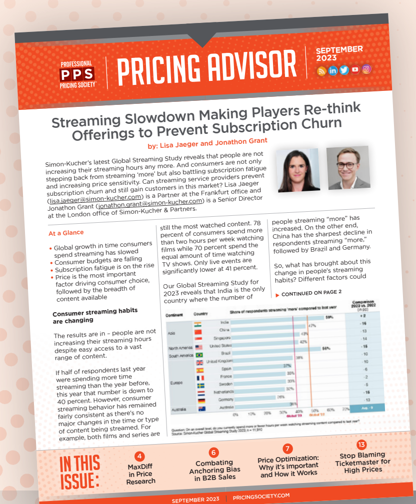

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Reliant on crystal clear data, great pricing optimization enables companies to offer their products at the price points that are most likely to be picked up on by customers.

Optimal price points will deliver the best possible profits for the company and may also be designed to achieve additional goals such as assisting in improving the company's market share or enabling expansion into previously unexplored markets.

What Does Price Optimization Involve?

Price optimization covers a wide range of different factors, and companies looking to ensure that their prices are all fully optimized will be managing a combination of these. The first thing to consider is which pricing areas the company needs to optimize.

1. **Starting Prices**
   The starting price of a product or service is of course fundamental to its success, so pricing optimization is key here. Pricing optimization software will analyze data to reveal the best possible starting prices, taking a wide range of internal and external factors into account.
2. **Discounts**
   Many companies opt to push their products out to larger audiences, or tempt back past customers, with the offer of discounts. Well-managed pricing optimization software can also be used in these instances, to ascertain the optimal price points.

PRICE OPTIMIZATION COVERS A WIDE RANGE OF DIFFERENT FACTORS, AND COMPANIES LOOKING TO ENSURE THAT THEIR PRICES ARE ALL FULLY OPTIMIZED WILL BE MANAGING A COMBINATION OF THESE.

The Benefits of Price Optimization

- Measure ROI
- Maximize Profits
- React Faster
- Gather Insights

Pricing optimization brings a multitude of benefits, which are evident throughout the sales process. Take a look at some of the main advantages of pricing optimization strategies.

1. **See fast, measurable ROI improvements**
   With pricing optimization software, it's easy to see how things are improving. ROI can be closely monitored, with all changes available to view in real-time. This data-driven approach enables teams to respond to fluctuations in demand quickly, maintaining the best possible ROI for the company.
2. **Maximize sales and profits**
   The best possible price points allow companies to achieve their true potential, particularly when it comes to maximizing sales and profits. Customers are more likely to pick up on products and services when they're priced optimally, and companies soon reap the benefits.
3. **React faster to market changes**
   Pricing software makes it possible for companies to react quickly to changes in the market, outsmarting their competitors by offering goods and services at the best possible prices for any given circumstances.
4. **Gather insights into customer behavior**
   The more data a company has, the better it can understand its customers. And with this understanding comes immeasurable opportunities. Data allows companies to

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offer products they know their customers will love – at prices they're sure customers will respond favorably to.

Price Optimization Models

- Science and Strategy
- Blackbox vs Clear Box
- Simple Rules Engine
- Clever Math Angle

Data is incredibly valuable when it comes to pricing. However, it can fall short if not used effectively. When it comes to price optimization models, there are a couple of different approaches – each with their own set of challenges:

- **Combining "Science" with "Strategy"**
  Remember SkyNet and all the phobias it created? Well, I've got news for you: we are way past that. Algorithms are here to stay, and they control almost every aspect of our digital lives. But as their ubiquity expanded, so too did our understanding of how they work. Therefore, modern optimization systems should give immense control to the users. Gone are the days of letting the algorithm make all the decisions. Now users should be able to combine their business strategy with the unlimited potential of an optimization model, overriding decisions when it makes sense and guiding the system to better outcomes. This should be done within the User Interface (UI) and should not require a data science or coding background.
- **"Black Box" vs "Clear Box"**
  Black Box AI refers to an antiquated philosophy where systems take in data and spit out guidance, without any transparency. Historically, this has been a hurdle for many organizations that would otherwise be good candidates for price optimization, as they lack trust in these technologies. When the system does make decisions, it should be completely transparent as to why that decision was made, and that background should be both easily accessible and defensible. This includes all of the math and actions that led to that guidance.
- **Simple Rules Engine**
  Business rules enable organizations to set broad and/or scenario-specific guardrails that mitigate any risks associated with science-based price optimization, such as capping price changes for a customer group. Individually, a rule is easy to understand, but as the number of rules builds up over time, they conflict with each other, which means new rules are then created to fix erroneous combinations. The result is often many layers of conflicting rules which are far too complex to visualize.
- **Clever Math Angle**
  Algorithms are used to try to solve the issues that the rules engine creates. While the solution may work, it's difficult to validate at a granular level. Users are asked to simply trust the answer. High-level statistics, operational research, and dictates from a "black box" aren't feasible for most organizations.

The simple rules engine approach is fiendishly difficult to manage, but the "clever" approach is often just too opaque and doesn't deliver real control to the business. **Neither option builds confidence** among the sales team so that they can fully deliver on the promises of the software vendor. Regardless of whatever the black box recommends, it's only the confidence of the front-line sales and deal negotiators that can deliver actual business improvement.

This is where strategy comes into play. While the models above deal with the number crunching, the execution is where real gains can be found. Smarter price optimization solutions allow developments in algorithm-driven technology to infuse with the intuition of humans in order to deliver when it counts.

How to Develop a Price Optimization Strategy

- Solidify Your Strategy
- Know Your Customers
- Organize and Analyze Your Data
- Measure Value Through Real-Time Insights
- Look to AI and Automation

How a successful optimization strategy looks will vary from company to company. The core ingredients include a strong understanding of the customer base and access to data and real-

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time insights that ensure teams don't have to rely on guesswork or hunches. All of this can of course be aided by technology.

Here are my recommendations to successfully optimize your pricing.

1. **Solidify your Strategy**
   Listen, I get it. Implementing a price optimization strategy can be a big step, which is why it is crucial to have a comprehensive business strategy that includes value expectations for the new system. What data is necessary to understand differences in price? Do expectations differ from division to division, product to product, or channel to channel? What does your roll-out plan look like? Does your sales team's compensation align with the new strategy? These questions and more should be answered within your business strategy prior to implementation.
2. **Know Your Customers**
   The key to knowing price optimization rests within each potential audience. Users of pricing solutions and **price management software** must have some understanding combined with a relevant level of control. Likewise, teams must have a good understanding of their target customers to achieve the best pricing optimization strategies.
3. **Organize and Analyze your Data**
   Make use of specialist pricing optimization software to organize and analyze data with ease. By keeping a careful eye on the most important metrics, teams can tweak pricing optimization strategies and provide a fully flexible and dynamic service. Tracking transactional metrics, such as both the optimized price and the final invoice price, will give insights into performance and effectiveness and highlight what is and isn't working.
4. **Measure Value Through Real-Time Insights**
   Far too many companies make the mistake of compiling data and only looking at it from time to time. Beat the competition by leveraging insights in real-time. In doing so, you'll put your company in a position where it can respond to any changes in demand at a lightning pace – and profits will soon soar as a result.
5. **Look to AI and Automation**
   Technology has so much to offer here, so keep an eye out for the latest developments in pricing optimization. AI and automation can help companies offer the best possible pricing at any given time. They can also cut down on time spent managing processes manually, freeing up teams to explore even more advanced optimization options.

Price Optimization Examples

It might be helpful to take a look at some real-life examples where price optimization might be impacting your daily lives:

- **Car Insurance**
  Automotive insurers use advanced gathering techniques for both personal and market data, including your loyalty to other service providers and shopping behavior, to arrive at an optimized price. Optimization has been shown to punish the consumers who do not shop around and compare prices.
- **Airfare**
  The airline industry has been one of the most prevalent users of price optimization over the past decade or so. Unlike car insurance, airlines are far more reliant on active aggregation of competitor prices and comparative price elasticity. This is why tickets for most major airlines move in similar patterns. Even "budget" airlines will take advantage of major airlines' higher prices by making themselves more attractive during highly competitive periods.
- **Rent**
  Rental price optimization has drawn major scrutiny recently and is an excellent example of an algorithm running amok. By controlling such a large market share of rental prices, software from a single company drove prices up so high that it pushed away loyal renters, created higher vacancy rates, and drew the ire of the US District Court with alleged price fixing. The point of price optimization is to improve pricing while keeping your customers happy, not drive them into bankruptcy.

Why Price Optimization Sometimes Fails

Many failed pricing optimization strategies are the result of poor understanding, but there are other aspects of pricing optimization which – when overlooked – can spell trouble. These are the most common pitfalls to avoid.

1. **Guesswork**
   Pricing optimization relies on the clever use of carefully compiled data. If it's based on guesswork and subjective data points, it's doomed to fail. Make sure your prices are fully optimized with the help of consistent, well-managed data to avoid such problems.
2. **Data Errors and Inaccuracies**
   Another issue we often see is the failure of pricing optimization due to errors and inaccuracies in data.
3. **Pricing Isn't Value-Based**
   Price optimization strategies should always take value into

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account. Value-based pricing is of course vital to the success of any sale, no matter which external factors a brand is taking into consideration.

4. **Heavy Discounting**
   Discounts can be a real secret weapon when it comes to drawing in customers, but heavy discounting can put a spanner in the works of even the best pricing optimization strategies. Instead of discounting products too quickly, or by too much, offer products or services at the optimal price point for your target market.
5. **Overcomplicating the Ask**
   As with any system or process, added and unnecessary layers of complexity will bog down the optimization and create contradicting guidance. Furthermore, too much granularity in your models can quickly lead to diminishing returns.

10 Tips for a More Successful Price Optimization Project

A price optimization project is a major undertaking for any company. There are often multiple internal stakeholders, and it is likely to affect a wide range of internal systems and processes, from basic product management systems to cost and profit allocation and customer relationship programs. When done right, it can be one of the most profitable activities a company can undertake. But when done wrong, the dangers are equally significant.

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Based on my experience, here are some final tips I have for any company that is about to embark on a price optimization project with the target of sustainable improvements:

1. It starts at the top. C-level support is critical.
2. Excel is a great tool for ad-hoc analysis, but not for operational pricing.
3. Distribute central and local responsibilities within a common framework.
4. It is a change management project, not a price list project.
5. Communication is key.
6. Focus on your desired business outcome rather than a specific platform or technology.
7. Set up a well-planned pilot, measure results quickly and comprehensively, then apply learnings in full, rapid implementation.
8. You need the right cross-functional competences on the team, including price management, product sales, business analysis and intelligence, and IT.
9. It is a full-time job. Whoever is running this should be focused on running this project and have few other responsibilities.
10. Create a reference framework in order to understand local and segment differences.

Summary and Key Takeaways

Price optimization can be a powerful tool in your mission to price better, react to market conditions, and keep your customers happy.

But that doesn't mean it's a simple concept to understand, though hopefully this article has helped you gain a better understand of both price optimization and how it works, as well as helped you determine if your organization is a good candidate for this kind of solution.

Stop Blaming Ticketmaster for High Prices

by: Rafi Mohammed

Customer outrage about expensive ticket prices is not a new phenomenon. But recently, even politicians are joining the chorus of complaints and threatening to investigate the entertainment ticket industry. But are Ticketmaster, Live Nation, and other providers gauging prices? Or are the prices driven by other factors? Rafi Mohammed is the founder of Culture of Profit, a consultancy that helps companies develop and improve their pricing strategies. He's also the author of ***The Art of Pricing: How to Find the Hidden Profits to Grow Your Business*** (Crown Business, 2005) and ***The 1% Windfall: How Successful Companies Use Price to Profit and Grow*** (HarperCollins, 2010). He can be reached at rafi@cultureofprofit.com.

A growing chorus of politicians including Senator Amy Klobuchar (D-MN) and Representative Alexandria Ocasio-Cortez (D-NY) is pushing to investigate entertainment conglomerate Live Nation for antitrust concerns. Their claim is that higher competition will lead to lower prices for consumers, in particular the fees charged by its Ticketmaster subsidiary. This populist sentiment is disconnected with who really controls and benefits from increasingly higher ticket prices.

If Live Nation is a monopolist, it certainly is not reaping outsized profits. For the first three quarters of 2022 – a record-breaking year for the live music industry – its net profit margin was 4.7%.

One lightning rod is the "convenience" fees that Ticketmaster levies to issue tickets. I recently purchased a concert ticket with a face value of $349.50, only to have Ticketmaster tack on an inescapable $86.75 convenience fee. This resulted in a total cost of $436.25.

Live Nation merged with Ticketmaster in 2010. At the time, Live Nation focused on managing venues and promoting entertainment events while Ticketmaster operated a ticket distribution platform. Critics claim that increasing competition in the task that Ticketmaster undertakes will yield reduced convenience fees. Surely if a Microsoft-like company entered the market, it would be a savior to consumers, right? Wrong.

ONE LIGHTNING ROD IS THE "CONVENIENCE" FEES THAT TICKETMASTER LEVIES TO ISSUE TICKETS.

What many do not realize is that pricing at Live Nation is a shell game. Remember my $436.25 concert ticket? The price could have just as easily been structured as a $436 face value for the ticket and a 25-cent Ticketmaster fee. What does Live Nation care? The money all goes into the same pot no matter how the final price is structured. Exorbitant convenience fees help to take the heat off of entertainers for their high prices. Ticketmaster has done an Oscar-worthy job of playing the bad cop. Any reduction in convenience charges can be transferred to a higher ticket face value.

Increased competition in the concert promotion part of the business could actually increase prices. Consider if a well-funded competitor aggressively competed against Live Nation to promote events. To secure the rights to host, say, a Rolling Stones concert, many entities would be vigorously bidding. This will result in higher performance fees being paid to entertainers which will ultimately be passed on to consumers in the form of loftier prices. In a similar vein, it is this type of competition for employees that is leading to wage inflation today.

The real culprits for high ticket prices are the artists themselves. Fans were outraged to discover that ticket prices for Bruce Springsteen's current tour reached as high as $5,000. Reflexively, they wagged their fingers at Ticketmaster and its ability to dynamically set market prices. Reportedly with a laugh, Mr. Springsteen admitted that it was his decision to set prices in the same manner as his peers do (employ dynamic pricing) and further justified his stance by opining that the entertainers, not ticket brokers, should reap the upside of market prices.

A lifestyle filled with private jets, mansions, and extravagant parties is a costly one. It is time for politicians and consumers to realize that entertainers are responsible for their "what the market will bear" ticket prices, not an evil corporate monopolist.