

Aligning Pricing Strategy with Delivered Value in Online Marketplace

Despite the fact that shoppers do at least half of their e-commerce spending through marketplaces, digital platforms still find it challenging to align increasing visitor traffic with profits. Online retailers often find themselves pressured by tough competition from e-commerce giants: Amazon, eBay and Alibaba on one side, and constantly emerging niche competitors on another.

This is the challenging position one of our clients found themselves in. A local division of an international niche e-commerce platform, they sold millions of items through their website and app online marketplace from third-party sellers.

The client believed the value being generated for their targeted customers had grown and shifted in the last two years. They asked us to re-evaluate their geographic segmentation and pricing strategy. The Pricing Solutions team built Revenue Impact Model that identified 1.6% increase in potential revenue from targeted price increases.

3%

Increase in Revenue

30 – 60%

Improvement in Product Performance

The Challenge

With an ad-based revenue model in place, the client grew their profitability and market share through their ad description pages and upgrade products. Although the client realized strong pricing growth over the past few years in both revenue and marketplace traffic, attempts to raise price points for their main upgrade products were met with challenges from customers. As a result, the client wanted to revise geographic segmentation to reflect the value provided to customers, revise the pricing model for two main upgrade products, and train the sales force to better execute their pricing strategies.

Building a Solution That Fits

Building a custom solution for this client involved a number of strategies:

1. Data Gathering

- Conducted a Business Review Workshop to gain a very deep understanding of the client's products, customers, competitors and market conditions.
- Gathered two to three years of relevant information from the client including Transactional data, Customer data, Product data, geo segmentation assessments.
- Conducted cross-functional interviews

2. Geographic Segmentation Revision

- Conducted reassessments of the geographic distribution of value and price by territory today vs. previous years

- Quantified customer churn based on transactional data analysis and existing insights gathered by client
- Built a retention model to quantify the impact of foreseen price changes by geographic segments
- Quantified risks and opportunities based on the retention model.

3. Pricing Model Revision for Upgrade Products

- Evaluating the value generated for upgrade products for third-party sellers
- Building a Revenue Impact Model to assess the impact of a price increase on customer retention and revenue realization (i.e. customers shifting revenue between existing products)
- Evaluating risk and opportunities associated with moving one upgrade item from all-or-nothing to 'a per item' pricing model.

4. Recommendations

- Based on our research and analysis, the Pricing Solutions team recommended the client:
- Revise prices for each territory and improve the approach to setting a price for geographic segments;
- Move one upgrade item to a per-item pricing model
- Implement a new package bundling strategy and discount strategy for both upgraded items.



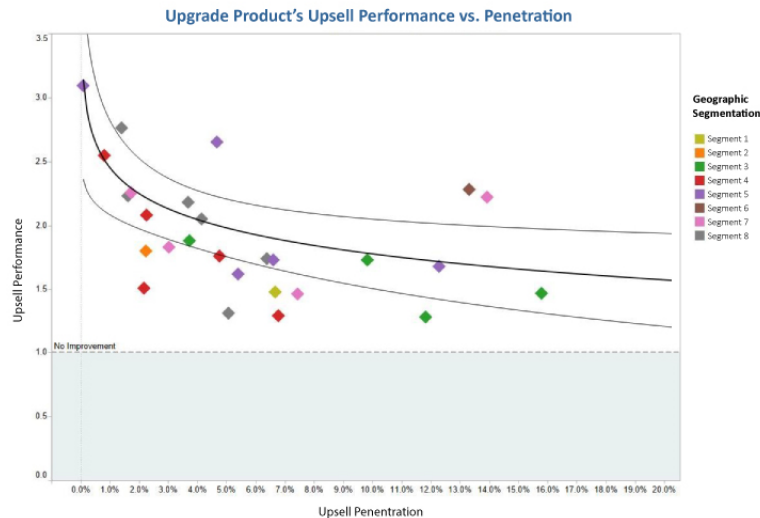
The Result?

Pricing Solutions developed an Impact Model that revealed a 3% increase in revenue from the targeted price increases we had recommended. In addition to this revenue increase, the pricing strategies our team identified resulted in a 30-60 percent improvement in upgraded product performance.

The final workshop we conducted for our client's sales force used this data to create confidence in executing recommended pricing strategies.

What's the Pricing Solutions Difference?

Pricing Solutions utilizes high-impact proprietary tools and frameworks that are designed for e-commerce businesses. The Pricing Solutions team then redesigns the pricing strategy and assesses the future impact of price changes to ensure your e-commerce business achieves substantially improved business results.



Above: As penetration increases, the upgrade product has clear diminishing returns.

Our Firm

Our mission is to dramatically improve clients' profitability and market share through improved pricing. Pricing Solutions' four core services include Pricing Strategy, Pricing Analytics, Pricing Research and Pricing Training. Known for our World Class Pricing™ methodology, we have grown to become one of the world's leading pricing consultancies with offices in North America, Europe, Asia Pacific and Latin America. Our global team of researchers, consultants and partners are recognized thought-leaders.

We deliver customized cross-functional solutions, helping our clients achieve a typical payback of 10:1 on their investment.

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