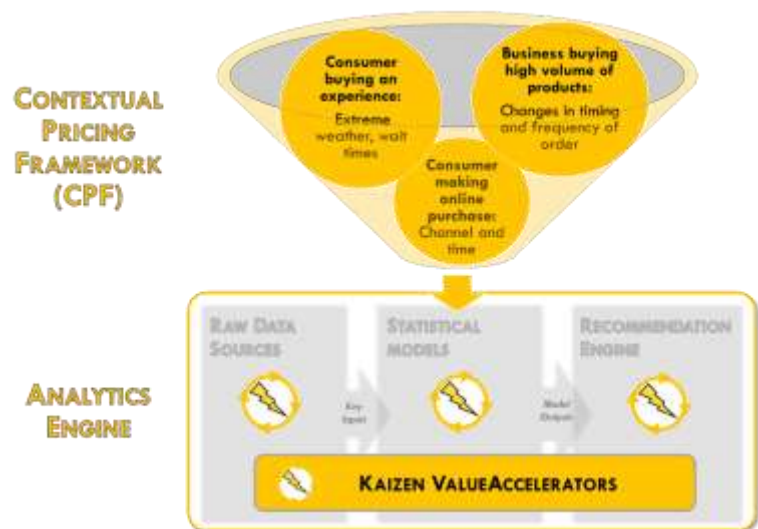


*Kaizen A-to-Zen:***SETTING PRICES IN CONTEXT*****The Impact of Pricing in Context***

Incorporating the **context of your customer's purchase decision** into your pricing analytics unlocks opportunities that are hidden at a segment level, and has **yielded an additional 1% to 2% revenue uplift** over and above a company's existing Pricing and Revenue Management capabilities – at times exceeding a 10% revenue increase on a specific transaction. These results can be the difference between surprising The Street with your outperformance and struggling to explain the challenges you faced in underperforming during the prior quarter.

***Setting Prices in Context***

With the rapid growth in data acquisition technologies and the explosion of self-service data management tools, we have been able to take Revenue Management (RM) to the next level of performance and granularity by incorporating the **context** of a customer's purchase decision into a company's pricing decisions. We have leveraged a **Contextual Pricing Framework (CPF)** in several industries and business models to incorporate context into RM applications – and we have done this analytically, rapidly, and with significant value derived.



In the table below, we provide several real-world examples of companies who have identified opportunities and captured incremental revenue uplift by incorporating more focus on the **context** of a customer's purchase decision, leveraging a CPF within their RM application.

In each of these examples, a shift in context for a specific customer purchase decision creates new opportunities for a company to use price as a lever to expand margins. Every shift in context must be measured and translated into a price premium/discount to be applied when the context occurs. The estimation of the premium/discount in each context is driven by a combination of art and science, incorporating a framework, new processes, data and tools.



*Kaizen A-to-Zen:*

**SETTING PRICES IN CONTEXT**

<i>Environment &amp; Customer Pricing Scenario</i>	<i>Pricing based on Traditional Revenue Management Approach</i>	<i>Application of Contextual Pricing</i>
<b>Individual consumer buying snacks or merchandise at a theme park</b>	<ul style="list-style-type: none"> <li>Prices set based on larger, non-refined data buckets, such as weekday vs. weekend</li> </ul>	<ul style="list-style-type: none"> <li>Longer wait times for an in-demand park ride create opportunities for differential pricing at certain locations compared to other locations</li> <li>Extreme weather events could drive the customer to a different category of locations than expected, creating potential opportunities for different prices</li> </ul>
<b>Business customer placing multiple orders each day / week / month for delivered goods</b>	<ul style="list-style-type: none"> <li>Prices set based on a macro-level customer segmentation                             <ul style="list-style-type: none"> <li>Long-term vs. new customer</li> <li>Items considered critical to a customer vs. non-critical items</li> </ul> </li> <li>Customer segmentation and prices updated annually / semi-annually / quarterly</li> </ul>	<ul style="list-style-type: none"> <li>The size of an order being significantly different from historical buying patterns could indicate a different context for purchase and hence a pricing opportunity</li> <li>Changes to the time and/or frequency of a customer's order placement could indicate shifts in the perceived context of a purchase</li> </ul>
<b>Individual consumer making reservations for services / experiences online</b>	<ul style="list-style-type: none"> <li>Prices determined by a pricing matrix, with segmentation at a high level:                             <ul style="list-style-type: none"> <li>Location</li> <li>Time of day</li> <li>Day of week</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A customer seeking a higher volume purchase instead of a lower volume purchase could create an opportunity for a price premium driven by availability</li> <li>A customer's channel and time of purchase implies a difference in context and can be leveraged to drive premiums/discounts</li> <li>A customer's purchase driven by personal special events (such as an anniversary) implies a difference in context and can be leveraged to drive premiums/discounts</li> </ul>

**Key CPF Enablers: Approach**

Our toolkit of Kaizen ValueAccelerators™ has been used to rapidly design, develop, and deploy contextual pricing frameworks. Working from customer data supplied by our clients, our toolkit brings proprietary metrics and publicly-available data sources to quickly generate a “business-reasonable” starting point for making pricing decisions in a more relevant context. This allows us to provide our clients with unique, “out-of-the-box” insights on price premiums/discounts for each context.



## Kaizen A-to-Zen:

**SETTING PRICES IN CONTEXT**

- **Outcome of Stage 1 / Establish Hypotheses:** A succinct list of hypotheses for testing, along with the associated criteria that either prove or disprove each hypothesis.
- **Outcome of Stage 2 / Test Hypotheses:** A list of proven hypotheses that clearly define the context(s) for the client.
- **Outcome of Stage 3 / Configure Kaizen ValueAccelerators™:** An automated process for context value capture and a price recommendation engine.
- **Outcome of Stage 4 / Model Testing & Refinement:** A set of models that are refined based on testing results and generate market-ready, context-informed price recommendations.
- **Stage 5 / Market Test Prices:** During this test period, refinements of the models and recommendations are continually worked based on the feedback provided and observed. It is important during this phase to isolate the effect of prices versus market dynamics to avoid over-correcting the models.
- **Stage 6 / Implement Prices:** Upon successful completion of the pilot, the models informing your pricing strategies are deployed across the client business line. Field operators are trained on the new pricing strategies, and models are continually refined by the client analytics/data science team.

**Key CPF Enablers: Data & Tools/Technology**

Today, there are scores of analytical tools and techniques to support a CPF approach, from supervised learnings to unsupervised learning approaches to a combination of both. Some of the common tools utilized include Random Forest, Classification and Regression Trees, multivariate regressions, and clustering techniques such as K-means. In our experience providing analytics services across multiple industries, any analytics deployment must balance mathematical accuracy of the underlying models with the business rules that dictate the real-world operational constraints faced by clients.

**Summary**

A Contextual Pricing Framework allows you to incorporate the context of your customer's purchase decisions into your company's pricing analytics. This approach:

- Determines the true value that your customer associates with your products/services within a given context
- Unlocks pricing opportunities that are hidden at a segment or other more aggregate level
- Yields an additional 1% to 2% revenue uplift over and above existing Pricing / Revenue Management capabilities

