GROWING MOBILE ADVERTISING REVENUES THROUGH PRICING ANALYTICS & STRATEGIES

BUSINESS SCIENCE CORPORATION

Abstract:

The mobile environment continues to face significant changes and challenges such as; a saturating market, increased competition, price wars and global macro-economic pressures. As a result, operators are forced to become more innovative in identifying ways to capitalise on new / existing revenue opportunities. For a leading African mobile operator, 'Mobile Advertising' was an untapped area of growth and opportunity. As it stood, this revenue stream had stagnated, and, to aggravate pressure, there was the threat of a new entrant to the market as well as pricing concerns that ultimately needed to be revised. Through applying Price Elasticity analyses, Behavioural analytics and Game Theory techniques, Business Science Corporation (BSC) created a strategic pricing framework that resulted in a revenue growth of 42% within the first 2 months, and inventory sell outs for up to 10 months in advance.

Client challenge:

The client required assistance in standardising its pricing of inventory and categories for its Mobile Advertising division. The key challenge resided in the fact that no standard pricing model existed at the time, resulting in sales agents having set prices based on relationships and speculation. This resulted in an incredibly broad spectrum of unstructured rates leaving the client vulnerable to both 'client demand' and 'competitor' threats. The scope of services required the development of a new standardised rate card to be published (mainly driven by the Competition Commissions requirements), thus moving the business from a highly variable pricing model, to a more robust and consistent one for each product across the market.

The core product focus was on *Call Back* SMS notifications and web portal advertising. Advertising inventory was sold via media agencies and sales houses (collectively known as media buyers). Moreover, additional complexity lay in the fact that these media buyers could receive multiple variable discounts as well as target based commissions. Media buyers who had purchased *Call Back* advertising were also accustomed to a value add component in the form of additional inventory in the order of between 30% and 50% of their purchase.

A major concern was in the fact that, typically, large buyers were better positioned to receive the lowest pricing rates based on volumes purchased (by up to 75% lower), and the standard rate card would, in effect, increase their rates. This could potentially be damaging with the threat that customers would churn or engage with competitors. In addition, given that the customers with the larger volumes would contribute the most to total mobile advertising revenues, any changes to their behaviours could have devastating results on the bottom line.

How we helped:

BSC's main directive was to increase the monthly revenues for the remainder of the fiscal year. The objective was to construct and standardise the incentive scheme to encourage revenue growth and maintain profit margins. At the time, the threat of a large competitor undercutting the client's pricing was taken into consideration and maintaining market share was also a key objective.

The problem was tackled using 3 analytical & modelling approaches:

1. **Price Elasticity** – Taking all the historical price points and volumes sold, based on media house and end client, a price elasticity model was established to test the purchasing behaviour to price changes. This enabled us to simulate the impact of various price changes, by media house and end client consumption, to identify optimal price points.
2. **Behavioural Model** – This model analysed and simulated the possible behavioural changes / impacts of pricing strategies on the media buyers. It took into consideration how exposed the operator was to large key customers and how smaller contributors could not compete based on price-volume discounts.
3. **Game Theory** – This model took into consideration the impact of a new competitor on the market and how the price pressure would impact future sales. This model was used to determine strategies to "lock out" the competition.

The net result was a model the defined the optimal pricing structure and discounting points for a volume vs. growth matrix.

Results & Value:

The pricing framework was designed to empower smaller customers to compete with the larger ones through providing significant discounts based on individual growth alone. As a behavioural dynamic, this resulted in a buying frenzy where media agents started buying future stock to guarantee their growth rates, in order to maximise their profits. This, in conjunction with the aforementioned pricing and discount analysis, helped to maximise the client's revenues.

In addition, 'Value-Adds' were now geared to drive cross-sell rather than cannibalisation. Lastly, the discounts where designed in a way that, if the larger players retained their volumes and drove growth, they were better off staying than leaving to go to the competitors.

The result - a revenue growth of 42% within the first 2 months and inventory sell outs for up to 10 months in advance.

Contact Us:

BSC provides leading analytical and modelling services to help organisations grow their revenues with deliberate precision.

Email us today to show you how we can do the same for your business:

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