



PROFITABLE

Pricing power has strong impact on profits

Average profit margin of
last three years (index)

Companies with high pricing power 133

All others 100

Pricing power
increases profits by
33%

Source: Simon-Kucher & Partners Global Pricing Study 2012



How new trends in pricing models can benefit the parking industry.

Warren Buffet, in an interview with the Financial Crisis Inquiry Commission in 2011, said, “The single most important decision in evaluating a business is pricing power. If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business.”

Why is price so important? A study conducted by Hinterhuber in 2004 shows that a small increase in price can increase or decrease profitability by 20 to 50 percent. That seems like a lot, but let’s think about it. If you are selling a product for \$1,100 and relevant costs are \$1,000, it results in earnings before interest and tax (EBIT) of 10 percent. If you increase the price by 10 percent without loss in volume, your resulting profit is \$210, or a 21 percent EBIT or doubled profitability with a 10 percent increase in price. This is a really simplistic example, but, slight differences in price can have a significant effect on profitability.

Trends in Pricing Strategy

The rhetoric in pricing evolved significantly in 2016. Pricing has been in the news, not just because of the fluctuating oil prices or the scandals of drug pricing by pharmaceuticals, but for overall pricing strategy to increase profitability. The pricing for products and services now more than ever is critical and determines success in the marketplace. Companies that think of pricing models as an afterthought or do not adapt to the new evolving pricing paradigm may find it difficult to survive.

Let's take Uber as an example. The entire company is based on a pricing model. Prices increase or decrease based on availability of drivers and are increased to entice more drivers to come out to match demand. There's a similar model at jet.com, where smart pricing algorithms govern the shopping cart of the company.

In the last couple of years, "uberization" of prices spread to several industries and to large and small companies. Customers have become more accepting of these changing prices that were for decades reserved for the airline industry. The hotel industry is following suit quickly, but other industries, such as entertainment, are catching up too. Disney recently announced that its

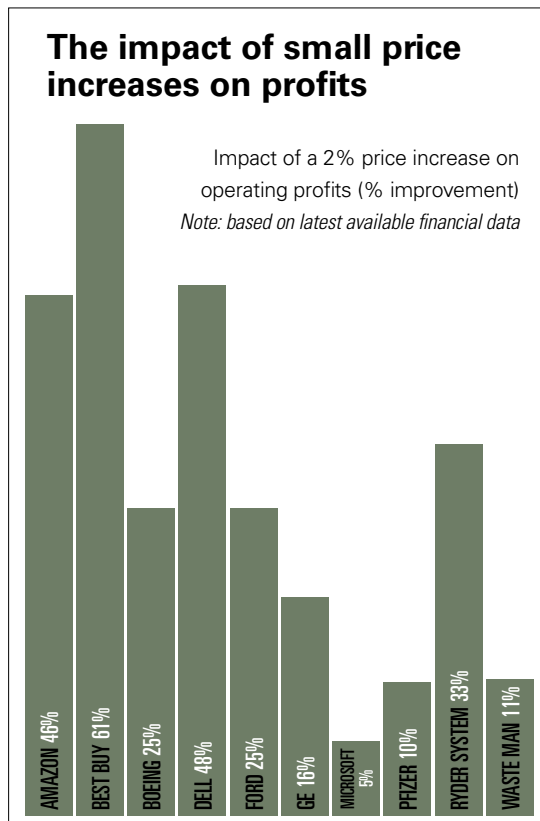
parks' tickets prices will be demand-based. Even sports arenas are using pricing analytics to improve sales. For example, Atlanta's baseball team, the Braves, confirmed it earns 12 percent higher revenue by using peak and off-peak pricing for game tickets.

The parking industry is also joining this movement. In the past few years, many parking companies have explored and enacted dynamic pricing. Additionally, city and state governments are beginning to experiment with changing prices for everything from use of HOV lanes to on-street parking.

In addition to uberization of prices, personalization of prices is entering the marketplace. The digital marketplace is vibrant and dynamic when it comes to personalized pricing. Currently, many online retailers are adjusting prices based on inventory, customers' attributes, past purchase history, and other factors. Companies such as Lexis-Nexis and Amazon are already exploring personalized pricing strategies and personalized promotion tactics.

As consumers move to the online marketplace, companies have access to more data about the purchase behavior of each individual based on prior purchases and history. Big data and analytics give companies not only access to huge amounts of data that were not possible to view earlier but also ways to understand and use it. Personalization works because each of us has different prices at which we would stop buying the product, and it's based on several factors. With access to data and sophisticated predictive and data analytics, it is now possible to model the threshold at an individual level as a function of firm, relative competition and specific customer attributes.

The impending entrance of fully automated and connected cars will further influence the ways consumers will buy parking. We are at the beginning of an era with more personalization in every aspect, including pricing in the digital world.



Inter-Connectedness of Price



Increasing Price Performance

Even before you implement dynamic pricing or personalized pricing, there are several aspects to be considered and optimized to realize the full effect of new pricing trends. In fact, increasing the price performance should be embraced regardless of whether you are embracing new pricing tactics or holding on to the existing pricing strategies. Implementing an increasing price performance program improves revenue on an average by 1 to 3 percent without introducing any additional costs.

Price is multi-functional and multi-dimensional in nature. Hence multiple functions and different aspects of a business operation are linked to price. When these aspects are not managed well, the added benefits of pricing tactics are not fully realized. Often, companies are not able to absorb the full benefits of increasing prices or new pricing strategies due to what are called "price leaks." A price leak is an unintentional or not perceived

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price decrease. Unnecessary promotions, inaccurate billing, inaccurate recording, systems issues, and lack of communication are some areas in which price leaks may be located in an organization. Hence, a good pricing strategy should not only include consumer research but also an understanding of functions such as legal, audit, accounting, promotions, operations, and IT.

You may develop a fantastic pricing strategy, but are your IT systems able to handle it? Do legal contracts with your landlord have some revenue-sharing clause that kicks in once you cross a certain revenue threshold? Do operational costs increase at certain production or occupancy levels that throw off the cost curve? All these considerations are an important aspect of developing a pricing strategy that directly benefits the bottom line. Both the back-end systems and employees in the front should be aligned with the overall strategy.

Starting Points

So where should you start? The accounting department is a good place to uncover price leaks. Average price paid at a channel level may provide a clue to where the problems are located. Understand the composition of an average price at a channel level. Do the various prices at each channel, such as corporate channel, monthly customer, or social media, align with what you have on the price sheet? Also, analyze the pricing waterfall at a channel to see where the highest percent of discounts exists. You can further divide that by region or location to pinpoint the exact point of the leakage.

The next stop is the audit department. Here you can further trace down some clues you have uncovered in the accounting group. The audit group knows what each customer paid, how they paid, what coupons they used, how much discount was given, etc. Take sample data of actual transaction-level detail. The devil is truly in the details here. Compare the actual price during the time with the price each customer paid or what he or she should have paid versus what was actually collected. Next, look at the service that was provided—were there other charges such as expedited service, valet parking, or a car wash whose charge was missed? Close these leaks. Understand the process that caused the leak so it can be prevented from taking place in the future.


The sales group is an important department in which to ensure that price performance is high. From reviewing corporate contacts to having an open dialogue, engage with the sales team about how it is structuring each deal.

Follow a deal process to ensure that prices are coded in correctly or that volume-based discounts accurately correlate to existing customer volumes. Ideally, the pricing team should be separate from the sales department in an organizational chart. The pricing team, when empowered and managed well, does a marvelous job in realizing a high price performance.

The next functional department that is key to price realization is marketing and promotions. Aligning promotions to pricing strategy is critical. Scan all promotions in the market. Do they align with the new/existing pricing strategy? Are they producing the desired results or simply discounting customers you already have? Is there a way they can be set up to align with the broader objective and customer-acquisition tactics?

Lastly, evaluate the pricing strategy in light of corporate constraints. Pricing strategy is as great as it can be implemented. Technology has become a business driver now, not just a support function.

If your strategy includes dynamic pricing but the systems cannot support it effectively, it will not work. If huge technology investments are needed that erode the revenue maximization that would have been received from the pricing strategy it does not make sense to pursue it. Another constraint that comes up often is people resources. Any pricing strategy may require additional resources in other functional areas. For example, marketing resources may be needed to be available to redesign the materials; the last thing you want to do is increase or decrease prices without appropriate communication to customers. Ensuring that the other departments have the human resources to execute on the pricing strategy will lead to improved implementation, particularly as you introduce new products such as dynamic pricing.

Although pricing has a direct effect on the bottom line, only 15 percent of companies globally have a dedicated pricing team. It is a strong lever, and slight changes can make a big difference to profitability and revenue performance. Often, in the parking industry particularly, a few years go by before someone re-evaluates pricing for a location. Even in cases when the price is optimized regularly, the other internal departmental factors are not considered and aligned to realize the full benefits. An understanding of the inter-connectedness of price across the various functions, all the way to its impact on brand image and consumer perception of a product or service, is crucial to unleash the true impact of pricing power. 



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