MBP: GAINING REVENUE YIELD WITHOUT RAISING YOUR TOP RATE

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Authors:
By Madelin Ward, Manager and Amanda Lloyd & Tyler Shiovitz, Senior Analysts

Yield Management across Industries

It is common knowledge that not everyone sitting with you on an airplane paid the same price for their seat. In fact, you would probably be shocked if they had.

Of course, some customers chose to pay more (in the first or business-class cabin), and these would be considered "premium" customers. But it is also widely accepted that some customers—possibly even the person sitting next to you—paid more or less based on other factors such as the timing of their purchase, the device used, their location and profile, etc.

In this instance, the airline industry is making their best effort at maximizing the revenue they can while continuing to fill as many seats as possible, relying on buyer characteristics and landscape to optimize prices dynamically across their customer base.

The same thinking can be true for subscription-based companies providing products like a newspaper or magazine.

Market Based Pricing

The Market-Based Pricing (MBP) program maximizes profits while minimizing subscriber churn. By leveraging market history, customer characteristics, demographic data, and industry insights, the MBP pricing model is intelligent enough to create an optimal, targeted renewal rate for every subscription in a database.

Unlike some other pricing strategies, MBP programs usually do not require any change to a paper's top rate. Since MBP is fully customized and regularly adjusted, different strategies can be applied to each market. Here, the focus will be on combining the MBP model with other strategies to increase operating margins.

The Average Rate Paradox

For Home Delivery subscriptions, markets will often approach us looking for solutions to two major revenue inefficiencies:

1. Stops that come from higher-paying subscribers
2. Starts and restarts that are on low, unprofitable rates

There are multiple ways to counteract the compounding effect these two points have with decreasing circulation. The key is to retain the most profitable customers while intelligently adjusting the rates for those who do not "pull their weight". This can be accomplished by leveraging each subscriber's operating margin.

Operating Margin
=
(Subscription Price + Preprint Revenue)
-
(Delivery Costs + Print/Ink Costs + Acquisition Costs)

Pricing to Margins

Making New & Low-Paying Subscribers Profitable
Using the operation margin formula (pg. 1), a subscriber's effect on the bottom line can be deemed profitable (positive operating margin) or unprofitable (negative operating margin). With that information, we can design different strategic areas of focus within the pricing program.

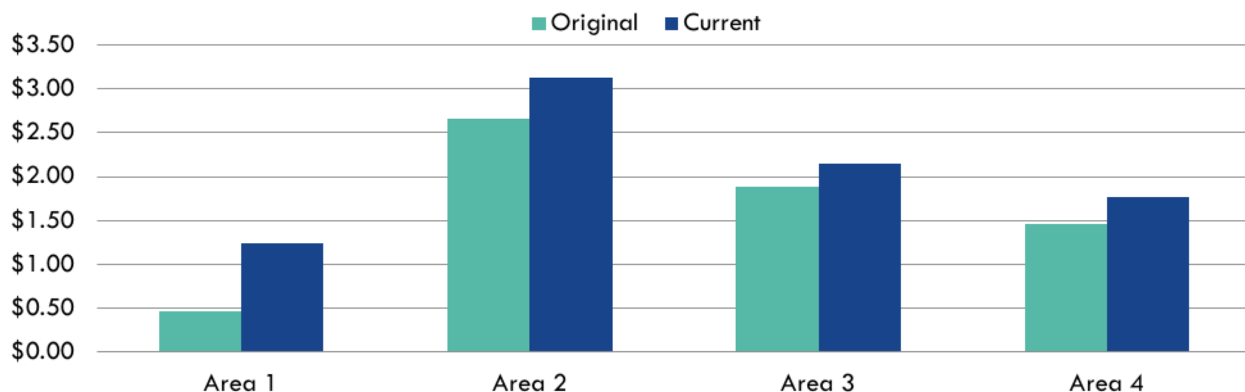
Short Term Subscribers	*Price Increase Strategy*
Positive Operating Margin	Conservative
Negative Operating Margin	Aggressive

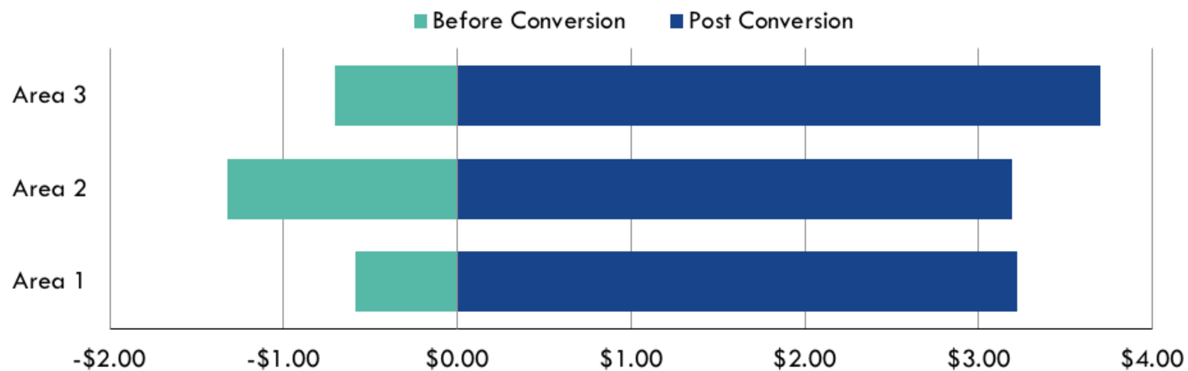
For newer subscribers who began on heavily discounted promotions, we may shorten the amount of time that they may spend on these unsustainable rates by implementing separate timing rules for new starts and restarts depending on their operating margin. Since we know that less-tenured subscribers are often more sensitive to price increases, we can minimize the potential circulation loss by only targeting those who have negative operating margins, therefore working to counteract problem #2 above. The others can be left to naturally increase over a longer time horizon.

Fallback Rates
Once pricing is implemented, specific fallback offers will also help guide customer service representatives, allowing them to decrease and revert subscribers' rates as long as it continues to yield a positive operating margin. *Figure 1* below shows an example paper that implemented these fallback offers.

Minimizing Costs

Areas with high delivery costs, low weekly rates and low advertising revenue can lead to subscribers having a low or negative operating margin. Assessing the average operating margin by area (often zip code or delivery route) can help distinguish which areas are not positively affecting revenue. It is important to re-evaluate the distribution footprints of these areas in order to maximize the potential profit gain.





Online Conversion
Home Delivery subscribers in sparse areas, even those paying higher weekly rates, may not be profitable due to a high marginal cost of delivering the paper. An option here would be to reduce the number of delivery days to these areas, while maintaining the same average weekly rate by providing enhanced digital access. This will reduce the costs associated with delivering the paper without reducing the revenue.

A newspaper can replace a customer's print copy with an online package to create online bundling. This will still yield the same revenue per copy as removing a delivery day, but decreasing costs and providing the subscriber with something valuable in return.

Figure 2 shows the change in three unprofitable areas after the newspaper converted all accounts in those areas to an online-only service removing print delivery completely. The average rates for each area fell from ~$12.00 per week to ~$3.25 per week. Even with the reduction, the newspaper went from negative to positive profits in these areas due to the overall reduction in delivery and print costs.

Managing Margins at the Source

Lessening Acquisition Campaigns in Low Profit Areas
Understanding the operating margins of different areas does not have to be solely retrospective. Newspapers can proactively prevent bringing in subscribers on less than the breakeven rate. If the cost to print and deliver to an outside county is $1.50 per week, (net preprint revenue) then the acquisition price should at least be $1.50 per week to avoid losing yield on new subscribers. It sets expectations early on, rather than having to make up for the loss in profit with an aggressive price increase later. Our analysis has found that subscribers who come in on artificially low rates are less likely to retain in the long run. The value of acquiring a subscriber on a higher rate. (1) The higher operating margin provides positive profit, (2) as well as a higher-expected long term retention.

The beginning of the customer lifecycle, with regular adjustment, can also be key to a higher profit margin.

In Review

In review, we have seen a subscriber's price is their actual profitability. By assessing costs and revenues, custom strategies can be built around optimizing profit margins and gaining revenue yield.

For more information about MBP services, visit www.mathereconomics.com