



The Future of Personalised Pricing

Key Themes in Revenue Management

March 2024



OC&C
Strategy consultants

stripe

IDEASTM
A sas COMPANY



Personalised pricing is...

... an approach to price management that accounts for the fact that each customer has unique needs and behaviours, and has a decision-making journey that is different to others



Great personalised pricing...

... optimises price on a one-to-one basis, to acquire the right customers at the greatest level of overall profit and deliver them the best experience for them



Well-designed, it can add value to operators in a variety of ways

Maximise revenue potential and brand share

Enhance profitability

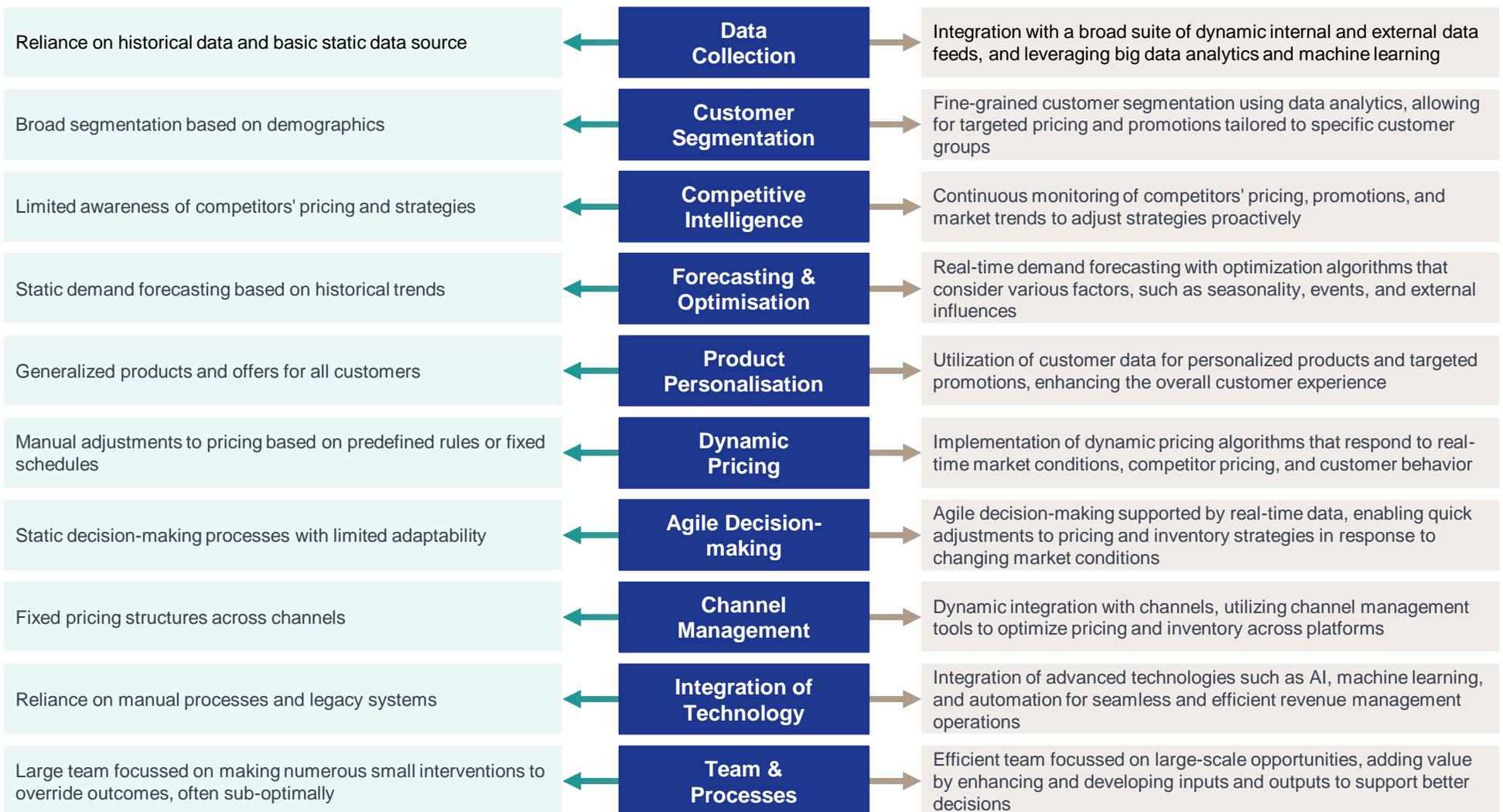
Improve customer experience and loyalty

Increased richness of data

Optimise existing resources

The starting point for every operator will be different, with opportunities to advance the approach to pricing at every turn

Basic Level



Our six priorities for more personalised pricing...

Start with strategic segmentation

1

Revenue management needs to start from strategic (and ideally dynamic) segmentation of both inventory and customers, allowing for products to be more effectively priced for the nuanced needs of different segments

Embed linkages beyond revenue management

2

Price is not the only lever to pull – with increasing need for sophisticated linkage to broader commercial & marketing levers to drive better and more profitable personalised acquisition and retention

Be customer-centric in how you define the competitor set

3

With the universe of competing experiences and formats complex and expanding, your approach to comparison and rate shopping needs to be nuanced to effectively shop the world as your customers do

Leverage channels and products as tools to personalise

4

Increasing diversity of channels mean increasing opportunity to implement more tailored pricing strategies to target specific segments – and a requirement for ever more integrations

Embed total profit mentality

5

Strive for a 360-degree view of customer spend and cost to serve across all streams of revenue, allowing you to optimise pricing for the true profitability of customer groups and improve returns

Harness the opportunities from AI

6

Short-term, there will be opportunities to harness AI to improve inputs and decision making; long-term, AI could create a new approach to revenue management and an empowered role of the revenue management team

Smart segmentation of customers and inventory is critical – it must be grounded in the needs and economics to serve different groups

Characteristics of Strategic Segmentation

Actionable

A good segmentation reflects the reality of the levers available to you to pull to grow the business

Collaboratively Built

A good segmentation is built with wide stakeholder engagement to ensure buy-in to strategic choices

Nuanced

A good segmentation deeply understands and reflects the underlying drivers of behaviour



Strategically Grounded

A good segmentation is designed to help management solve key strategic issues

Analytically Robust

A good segmentation combines science and art, drawing on a wide range of data sources

Focused on Economics

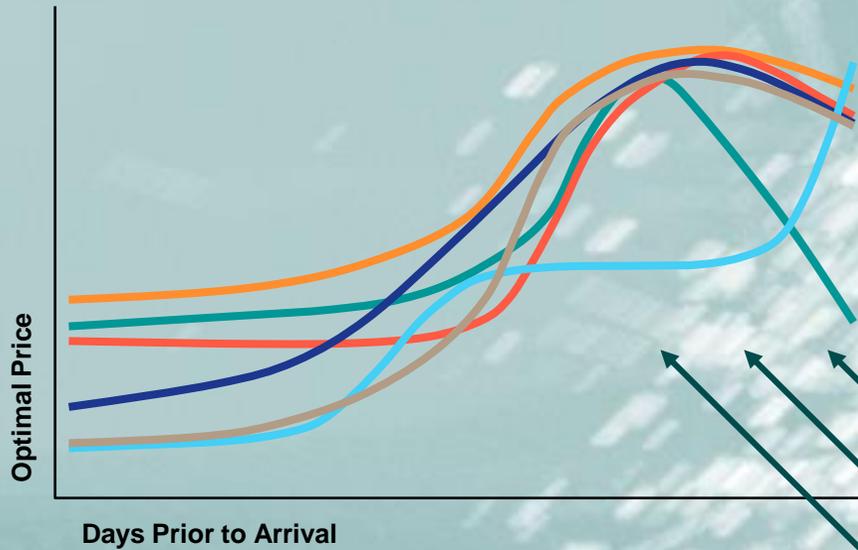
A good segmentation understands customer economics (acquisition costs, profitability, lifetime value etc)

Nuances in customer preferences can drive very different propositional, product and commercial decisions – for example...

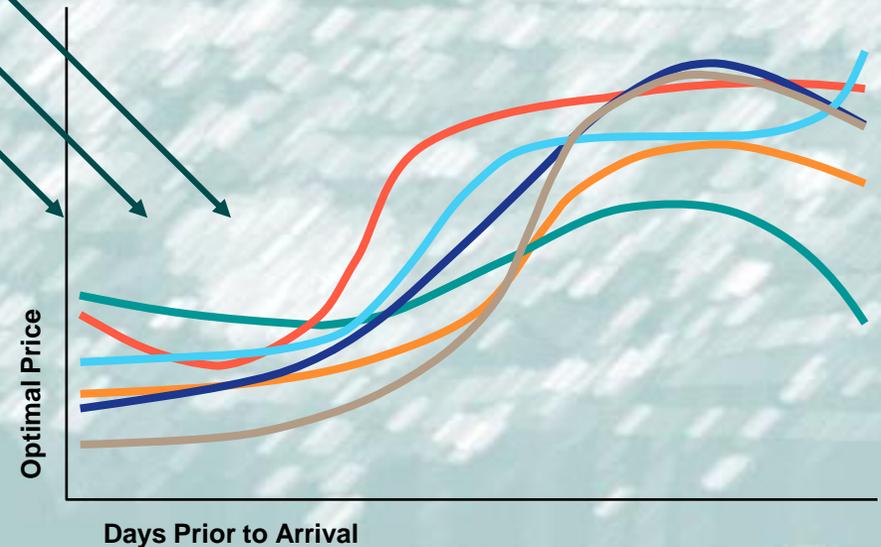
... All of these customers are seeking a focus on “destination” – but there are subtle differences in what they’re willing to pay for around this and when...

Importance of Key Purchase Criteria by Segment		Price	Cabin Quality	Ship Quality	Cultural Immersion	Channel Preferences & Lead Time
 <p>Destination Immersion</p>	<p>21% of relevant market pax</p> <p>Average spend \$11.5k</p>	18%	17%	11%	81%	<p>Agent / Direct</p> <p>Long-lead</p>
 <p>Destination Indulgent</p>	<p>17% of relevant market pax</p> <p>Average spend \$11.6k</p>	28%	33%	23%	37%	<p>Agent / Direct</p> <p>Long-lead</p>
 <p>Destination Entertainment</p>	<p>13% of relevant market pax</p> <p>Average spend \$9.0k</p>	35%	9%	37%	19%	<p>Agent / OTA</p> <p>Mid- / short-lead</p>

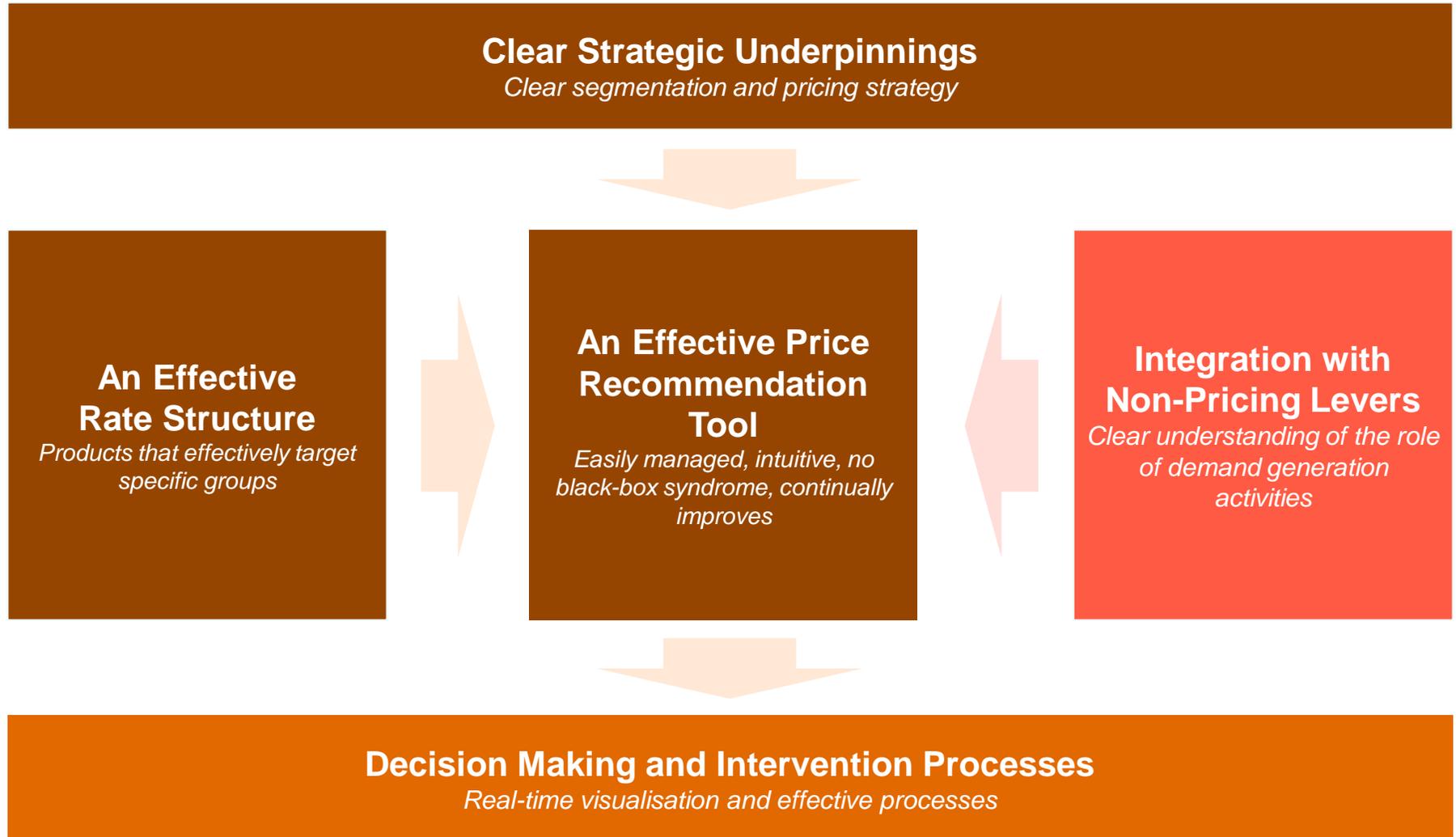
Best-in-class are recognising that these factors shift dynamically over time, and are leveraging smart tools to optimise against this...



- Relevance and behaviours / preferences of different customer segments will shift over time
- At any given point, the revenue management approach needs to be optimising for now
- Increased role of AI to learn these shift in behaviour and willingness to pay, and optimise more dynamically as segments shift



Revenue management systems and teams sit within a much broader ecosystem, and there needs to be seamless connectivity



Best-in-class knows where investment in pricing is key, versus where other commercial levers are needed to source incremental demand

Building out a “commercial battleplan” gives clear guidance on when price will do the job, versus where other levers will unlock material value...

		Jan-Feb			Mar-Apr			May-Jun		
		Pricing	ATL / BTL	Saver	Pricing	ATL / BTL	Saver	Pricing	ATL / BTL	Saver
High Summer Cruises	Strong Performers	Green	Green	White	Green	White	White	Green	White	White
	Good Performers	Green	Green	White	Green	White	White	Orange	Orange	White
	Mid/Late Booking	Green	Green	Green	Green	White	Orange	Green	Green	White
	Structurally Distressed	Light Blue								
Autumn Cruises	Strong Performers	White	Green	White	Orange	White	White	Orange	White	White
	Good Performers	Orange	Green	White	Orange	White	White	Orange	White	Orange
	Mid/Late Booking	Green	Green	Green	Green	White	Green	Green	Orange	Green
	Structurally Distressed	Green	Green	Green	Green	White	Green	Green	Orange	Green

Wave Campaign
Targeted Pulse

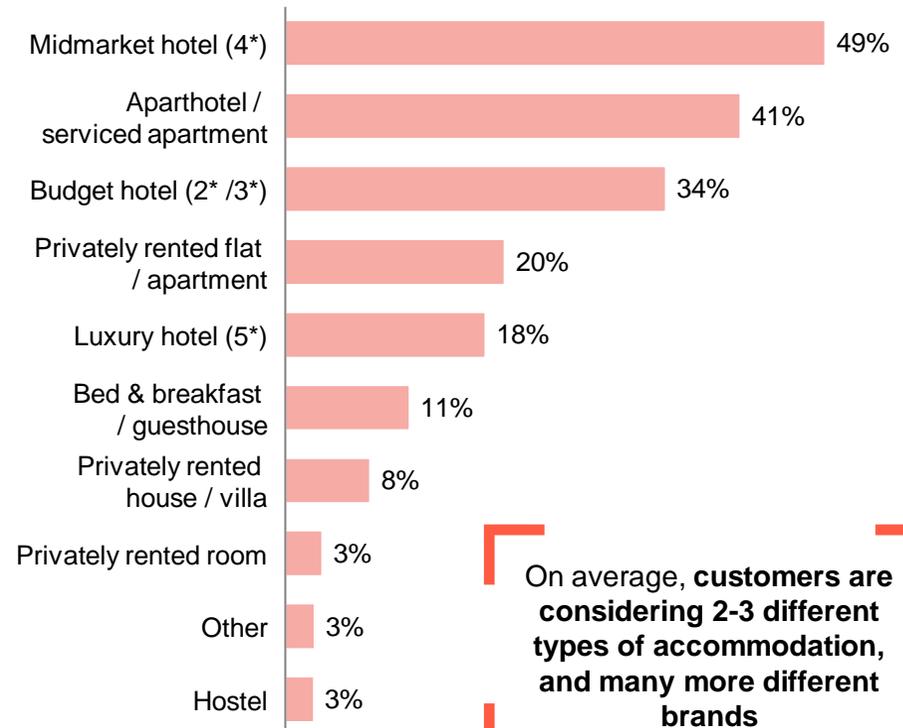
- Fundamental of revenue management is knowing how price will drive volume
- But often less clarity on how other levers will impact for different inventory at different times
- e.g. ATL campaigns, B2B sales outreach, OTA promotions, promotional products, CRM etc
- Need for a cross-functional battleplan to maximise commercial success

The approach to competitor intelligence needs to become more sophisticated as disruptive models gain share



Customers consider multiple different accommodation types when organising a holiday...

Types of Accommodation Considered – European City Break (N=1,018)



On average, customers are considering 2-3 different types of accommodation, and many more different brands

1. "What types of accommodation did you / your group consider using for this trip? Tick all that apply
Source: OC&C Consumer Survey, OC&C analysis

Those doing this well are recognising the value they bring for different customer segments

Recognising Your Value vs Competitors

Family of Four



Business Professional



Airbnb

- ✓ Unique Flexible Experience
- ✓ Multiple Rooms / Bedrooms
- ✓ Cooking Facilities
- ✓ Entertainment / Home Comforts
- ✗ No Cleaning
- ✗ No Service
- ✗ Variable Quality

- ✓ Multiple Rooms
- ✓ Cooking Facilities
- ✓ Space to Work
- ✓ Entertainment / Home Comforts
- ✗ No Cleaning
- ✗ No Service
- ✗ Variable Quality

Serviced Apartment / Aparthotel

- ✗ Cookie Cutter
- ✓ Multiple Rooms / Bedrooms
- ✓ Cooking Facilities
- ✗ More Limited Facilities
- ✓ Regular Cleaning
- ✓ 24 Hour Reception
- ✓ Consistent Quality

- ✓ Multiple Rooms
- ✓ Cooking Facilities
- ✓ Space to Work
- ✗ More Limited Facilities
- ✓ Regular Cleaning
- ✓ 24 Hour Reception
- ✓ Consistent Quality

4* Hotel

- ✗ Cookie Cutter
- ✗ Single Room
- ✗ Basic Cooking Facilities
- ✓ Pool, Kids Club etc.
- ✓ Regular Cleaning
- ✓ 24 Hour Reception
- ✓ Consistent Quality

- ✗ Single Room
- ✗ Basic Cooking Facilities
- ✗ Limited Space to Work
- ✓ Gym, Restaurant, Bar etc.
- ✓ Regular Cleaning
- ✓ 24 Hour Reception
- ✓ Consistent Quality

The travel ecosystem is always evolving and AI could further supercharge channel evolution and the role of search

GenAI is driving innovation around the recommendation and inspiration stages of the booking journey already...



E.g. iPlan.ai generates itineraries with photos & links, highly responsive to customer specific needs

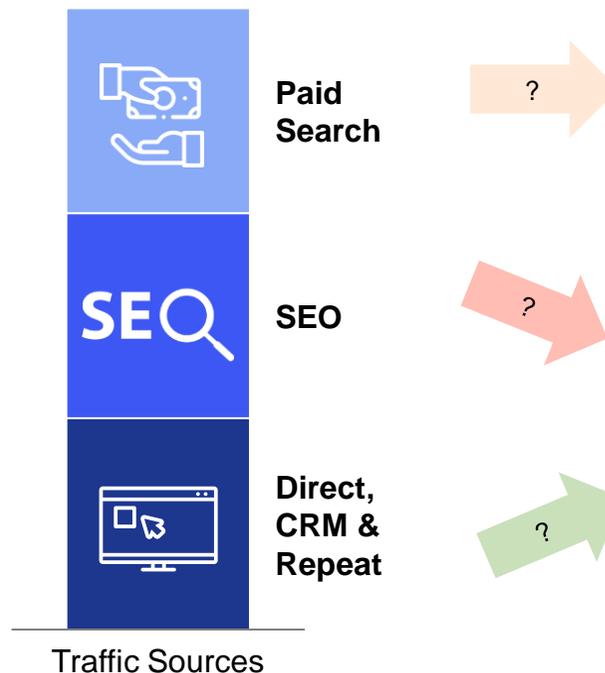


E.g. ChatGPT uses add-ons to pull options based on customer preferences



Airbnb, Hospitable and many others are using AI to improve their customer service quality and responsiveness

... And emerging Generative Search products raise question marks about search traffic in coming years



- Potential Gen AI-based disruption raises questions around what will happen to paid and organic search traffic
- However, many uncertainties and barriers to be overcome for search disruption to become mass-market (technical, commercial, behavioural)
- If it does become mainstream, behavioural change could be an opportunity to gain share and margin as a threat

Managing channels requires strategy – there are clear and evolving trade-offs to consider, which will impact revenue management decisions



Building longer-term brand equity...

VS

... delivering short-term volume / revenue



Building confidence in yield out-turn...

VS

... taking greater risk in the short-lead window



Maximising cash margin...

VS

... maximising yield and revenue

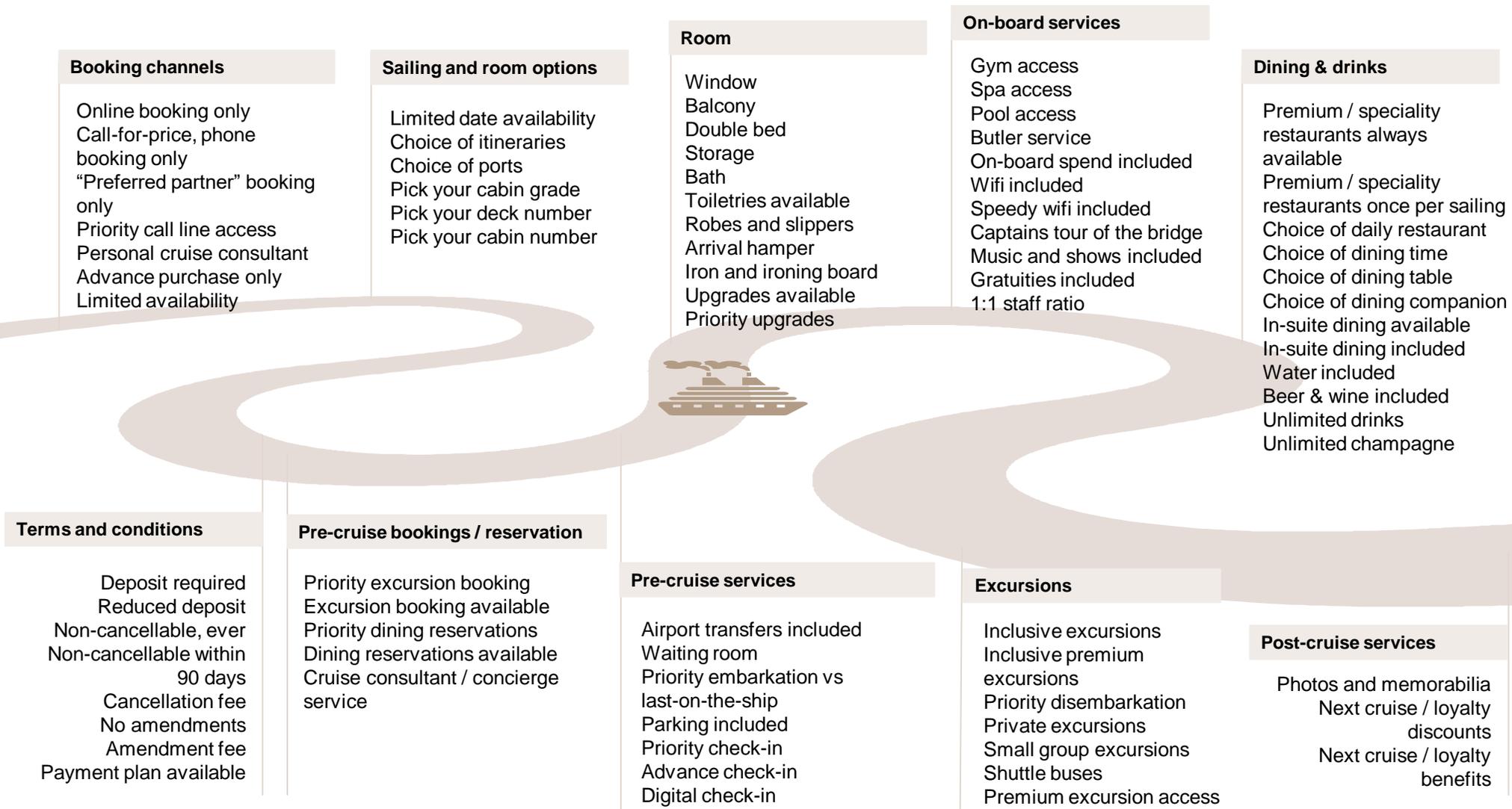


Developing internal capabilities...

VS

... leveraging third-party expertise

Smart operators are also differentiating on product - creating more personalised packages to appeal differentially by customer and channel



Customers are inherently different in terms of how they spend (or could spend) when on-site, and there is material revenue to optimise for



Global Hotel Revenue = **\$950bn**

Global Hotel F&B / Other Income = **\$332bn**

Understanding and optimising for the profitability of different customer groups, through different channels, is a nascent frontier



Loyalty room rate = **£100 / night**
Room upgrade = **£50 / night**
F&B spend = **£150 / night**

Total Revenue = £300



OTA room rate = **£120 / night**
Casino spend = **£180 / night**

Total Revenue = £300

What you don't see...

- ✓ High incremental profit from upgrade
 - ✓ Reduced (but not no!) cost of acquisition
 - ✓ Customer data & future bookings potential
 - ✗ Low margin F&B
 - ✗ High service cost
 - ✗ High cancellation rate
 - ✗ High cleaning cost
-
- ✓ Higher channel price point, given shorter lead
 - ✓ Very high margin casino spend
 - ✓ Lower cost to serve
 - ✓ Lower cancellation rate
 - ✓ Positive review drives future bookings
 - ✗ High channel commission
 - ✗ No data capture or future marketing opportunity

Generative AI has an impressive set of capabilities which we are only just starting to understand...

Create

Write

Text

Code

Presentations

Converse

Chat

Context

Memory

Personalise

Understand

Tailor

Recommend

Explain

Educate

Concepts

Code

Languages

Summarise

Conversations

Actions

Documents

Coach

Monitor

Identify

Suggest



Generative AI
Capabilities

Explore

Extract Data

Documents

Web

Intranet

Converse

Information

Brainstorm

Inconsistencies

Personalise

Documents

Transactions

Conversations

Edit

Educate

Text

Grammar

Code

Summarise

Risks & Issues

Best practice

Bugs

Coach

Quality

Benchmark

Compare

Whilst there remain limitations and risks today, long-term there is undoubtedly a massive opportunity to exploit AI to improve team efficiency

- GenAI is nascent and still comes with multiple health warnings...
 - Data security
 - Hallucinations
 - Common sense
 - Explainability and control
 - Etc.
- General wisdom is that fixing these is a matter of when not if...

- 
- ... And so the onus is on operators to work out how they can best leverage the capabilities of AI
 - GenAI won't replace revenue management, but it will change the capability of the systems and it **must change the role of the revenue manager**
 - Numerous currently under-exploited use-cases to consider
 - Richer inputs
 - Visualisation
 - Smarter decision making
 - Etc
 - Winners will start moving now

Thank you – and in summary...

Why do it

Maximise
revenue potential and
brand share

Enhance profitability

Improve
customer experience and
loyalty

Increase richness of data

Optimise existing
resources

What to watch out for on the road to success

- 01** Start with strategic segmentation
- 02** Embed linkages beyond revenue management
- 03** Be customer-centric in how you define competitor set
- 04** Leverage channels and products as tools to personalise
- 05** Embed total profit mentality
- 06** Harness the opportunities from AI