



Oxygen Consulting's **Ray Algar** says consumers are growing ever-more aware of their collaborative power... is your business ready to meet their demands?

## Collaborative consumption

Spare a moment for those poor retailers who still insist on putting 'things' in windows, accompanied by a fixed price tag.

How quaint. In bygone times when asymmetrical information flourished (when the retailer knew far more than us), this method of trading was appropriate. Consumers were guided by the marketer's pen. They set the price and we chose to pay, or not. Individually, we as customers lacked both influence and bargaining power.

However, what happens when pricing insight becomes accessible and consumers begin to share knowledge? Welcome to the world of collaborative consumption.

### A growing global movement

Collaborative consumption is a phenomenon that is sweeping across the globe. Global 'Wikipedians' continue to build Wikipedia ([www.wikipedia.org](http://www.wikipedia.org)), the world's biggest on-line encyclopaedia. The English version has 152,000 contributors, 609 million words and is 15 times larger than Encyclopaedia Britannica. It is also a goldmine of well-presented information for the savvy web user.

Consumers collaborate on-line to exchange goods and services through web sites such as eBay and Gumtree, they share hospitality experiences through Trip Advisor (five million reviews and rising) and pool their collective purchasing power to co-own (fractional ownership) high value assets such as prestige cars, property and airplanes ([www.12thshare.com](http://www.12thshare.com)).

Collaborating to leverage discounts and incentives is an inevitable reality of 'connected living'. Individuals are learning that it is better to be part of

a crowd and the crowd is fast becoming very wise.

United Consumers is a Dutch company with 250,000 members and negotiates discounts on petrol, insurance and electricity. Crowdstorm ([www.crowdstorm.com](http://www.crowdstorm.com)) is a new website that aggregates the 'buzz' surrounding a product. Aggregating recommendations in one place engenders confidence in the product.

Presently, many of its members are recommending the new Apple Macbook. The inevitable next step, is for those purchasers to organise themselves into a buying group. In China, team buying or 'Tuangou' is a fast-growing consumer-buying phenomenon.

### The World of Tuangou

Originating in China, Tuangou harnesses the 'connectiveness' of the internet to cluster groups of like minded consumers who then descend on a bricks and mortar outlet to negotiate a group discount. Are you in the market for Sony's new ultra portable laptop computer?

It's yours for a fixed price of just £2,000. Alternatively, use the internet to team-up with 20 other

buyers on Saturday April 27th at 5pm on Tottenham Court Road, London and it is yours for just £1,640, 18% off the list price. It is also 8% cheaper than the best on-line deal, based on purchasing a single unit. Consumer savvy retailers do not see this as lost margin, but as the millennial way to move stock and lower customer acquisition costs.

Websites such as Team Buy in China (<http://020.teambuy.com.cn/english>) are now popping up to coordinate a series of team buys for electrical goods, cars and furniture. Some team buying groups number 500 ready-and-willing consumers; they have finished their pre-purchase deliberations, identified the store and are now ready to buy.

Rather than consumers, 'mobbing' a store unannounced, Team Buy and other Chinese web sites are negotiating bigger discounts on behalf of members and even arranging special closed viewings. The website takes a small trading commission on purchases.

Tuangou synchronises with the co-creating trend (see *Leisure Report March 2007*) where consumers are now demanding to play an active role in how products and services are designed, communicated and procured.

The notion of on-line consumer 'team-buying' has been seen before with websites such as Mercada and Letsbuyit, but these businesses faltered because the buying cycle was sometimes too long. In this 'I want it now' world in which we now reside, waiting three weeks for an extra 5% discount on a plasma television was never a viable business proposition. Also, smaller buying groups (when there were less people on-line), meant that price leverage could not match the larger retailers.

The difference now is that there are a billion people on-line and Amazon and eBay have introduced consumers and retailers to the world of dynamic pricing, through price auctions. They have also reduced the 'price to wait time' trade-off, by introducing an abundance of products and an auction process that can close a few seconds after you submit your bid. It is applying the principles of dynamic pricing to almost any legal item, such as a Colorado couple who recently sold a snowball on eBay for \$200.

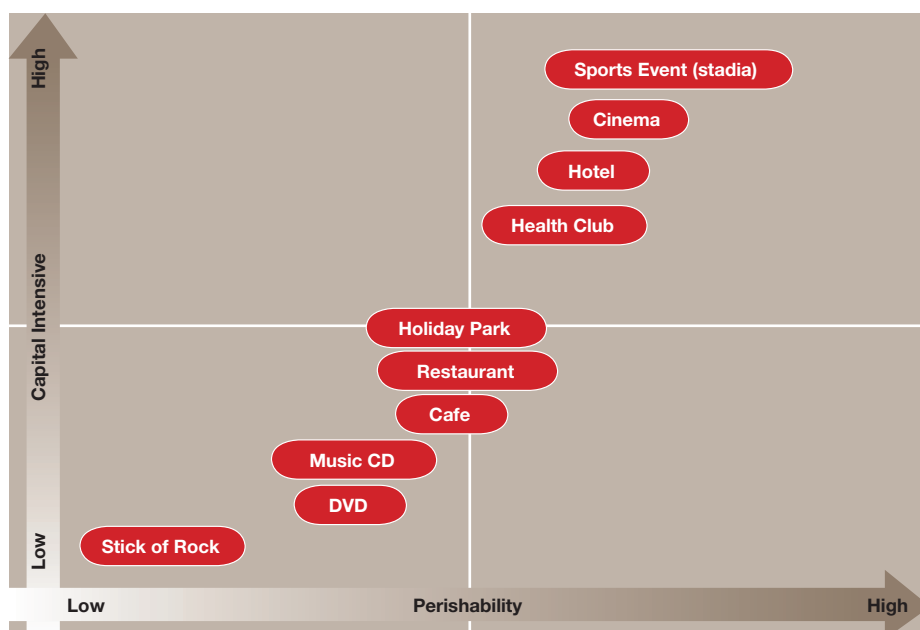
### Dynamic Pricing

Given that we are entering a world where consumers are becoming more receptive to the price of goods and services flexing (value pricing at restaurants, time-bound at health clubs, bundled pricing with mobile phones, revenue-optimising with airlines etc), will we now see more dynamic pricing in the leisure industry?

Dynamic pricing is suited to businesses with the following characteristics:

- High fixed costs.
- Perishable product (applies to most services).
- Low marginal cost.

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Clearly, this describes most property-based leisure propositions. Airlines and hotels have embraced dynamic pricing as technology enables sophisticated customer profiling and rapid, low-cost price amendments – something that was prohibitively expensive prior to the internet. For example, if I want to fly with easyJet from Stansted to Bilbao tomorrow, returning the following day, the price is £139 compared to £55 for the same route and days in May.

EasyJet charges a 153% next-day premium. It is an ‘urgency premium’ and exploits the fact that my impending trip must be important. The UK Passport Office charges an urgency premium for issuing passports. They charge a 64% premium for a same day versus their three-week service.

Readers will remember easyCinema that opened in Milton Keynes in 2003 with an innovative dynamic pricing model with tickets starting at just £0.20p. Meeting all of the above dynamic pricing characteristics, logic asserted that consumers would respond to ticket prices up to 96% lower than most other cinemas.

One stated metric was to increase off-peak occupancy to a heady 50%. However, one significant difference for this business was the challenge of not owning content. Film studios were reticent to supply first-run films and the two sides could not agree an equitable price. The film industry also had an issue with easyCinema selling a \$200m film for 20 pence. Nevertheless, easyCinema initially secured second-run films and was achieving a 56% occupancy versus an industry benchmark of approximately 20%.

The Milton Keynes cinema traded for three years before closing in 2006 due to a rent dispute. “As an operating business, it was quite successful”, said easyGroup’s director of corporate affairs, James Rothnie.

This sounds rather unconvincing and perhaps explains why the concept was not taken to London. easyCinema has now morphed into a cinema booking portal and DVD rental service. Interestingly, health clubs tend not to use dynamic pricing even though they display the required characteristics (see diagram). Instead, they employ time-banded and bulk pricing (e.g. corporate membership for the police force, banks etc). This is quite a blunt pricing strategy and throws up some inequitable scenarios such as a highly paid banker securing a lower priced membership rate than a single parent, working part-time at a local florist. The latter can only secure a better rate if they can organise themselves into a buying group and leverage the power of the crowd.

### Will consumers accept dynamic pricing?

Given the exponential growth of eBay and Ama-

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zon over the past few years, it seems as though we are gaining an appetite for new pricing strategies. Restaurants are now flexing prices by up to 30% to encourage diners into off-peak sittings, while others use a ‘pay what the meal is worth’ approach, which is dynamic pricing at its most extreme, with some customers choosing to pay nothing.

One restaurant that applied the latter approach reported a 20% increase in takings, as guests grappled to estimate a fair value for their meal. Is this genuine consumer-centric pricing or psychological manipulation? How long before cafés begin to apply dynamic pricing to our morning cappuccino. This morning, I went to my local café and ordered a cappuccino and paid £1.85. I would rate this 9 out of 10 on a satisfaction scale.

If I have another, I would only rate it 6 out of 10, applying the law of diminishing marginal utility (when does the second cup of the day ever taste as good as the first?). Should this be reflected in the price of the second cappuccino and discounted by a third to £1.22? I pitched my idea to Luca, the café owner who was reluctant to immediately throw out his fixed price menu. However, dynamic would not be dynamic if the second cup discount remained fixed at 33%; it would have to flex according to each customer’s own diminishing marginal utility. Applying this pricing policy to a frenetic cafe environment may be too challenging, but could be applied elsewhere.

### Dynamically Priced Vending Machine

How would consumers respond to the price of soft drinks that change according to the weather? Coca-Cola Company has reportedly been testing a vending machine that increases the price of a soft drink when it is hot. Yours for just 65p on wet Wednesday, but £1.25 on sunny Saturday. A previous Coca-Cola Company Chairman, Douglas Ivester, noted that people watching a summer sports event would naturally develop a powerful craving for a drink. “So it’s fair that it should be more expensive”, he was quoted as telling a Brazilian magazine.

“The machine will simply make this process automatic.” Ivester left Coca-Cola Company soon after making his statement and no more has been

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heard of this initiative, but would consumers think this is an acceptable pricing strategy? Having tested the proposition with colleagues, most found it distinctly exploitative and unfair, but is this so different from the easyJet ‘urgency premium’ for tomorrow morning’s flight to Bilbao?

Are both not opportunistic pricing? Amazon has also been exploring dynamic pricing with a cross-section of its customers. Many readers will be receiving personalised recommendations if they have shopped through Amazon, but how competitive is the price of these recommendations? I recently purchased Chris Anderson’s book, *The Long Tail: How Endless Choice Is Creating Unlimited Demand* through Amazon and I am now being sent e-mails offering me *The Power of Choice: Why More is Less* by Barry Schwartz. What a clever service you may be thinking.

However, what if Amazon was charging me more for this book than other customers, using its knowledge that I was highly likely to buy and perhaps, not question the price. Is this an acceptable pricing strategy? Some may argue that Amazon can apply a small premium because it has made a rather clever personal recommendation, saving me the time and expense to undertake the search myself.

Some consumers may not feel entirely comfortable with the idea of disparate pricing for the same product, but are we not inevitably heading away from a fixed priced model; towards personalised pricing?

Perhaps, personalised pricing is how the leisure industry will respond, but only if it develops ‘Amazon-like’ capability. Clearly, there are challenging barriers, as my health club struggles to deploy an on-line booking system for tennis and exercise to music classes, and the local multiplex cinema has very limited means to personalise the experience.

Technology is democratising the purchasing process and ultimately consumers will decide how far leisure suppliers can push the limits of these inventive ways of optimising price. The individual has morphed into a crowd and the crowd is wise. They are here to stay. Is the leisure industry ready for them?

### About the author

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