



Premium PRICING STRATEGY

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Business Problem

- Assist emerging companies in designing or updating premium pricing models by analyzing key factors like technology costs, ARPU, and competitor pricing.
- Identify optimal pricing strategies based on price sensitivity, market trends, and competition to maximize profitability and retention.
- Determine how key factors influence premium prices to optimize revenue and maintain a competitive market position.



What is Pricing Strategy?

- It is designed to maximize profits, drive customer acquisition and retention, and align with broader business goals.
- Companies set prices for their products or services, balancing factors like costs, competition, demand, and value to customers.
- The right pricing strategy helps a company remain competitive while achieving its revenue and market share objectives.



Types in Pricing Strategies

Bundling Pricing Strategy

Ex: Amazon Prime

Offers Bundle:
Prime Shipping
Prime Video
Prime Music
Prime Reading

Tiered Subscription Model

Ex: Netflix

Subscription
Basic
Standard
Premium

Dynamic & Usage Based Strategy

Ex: AWS

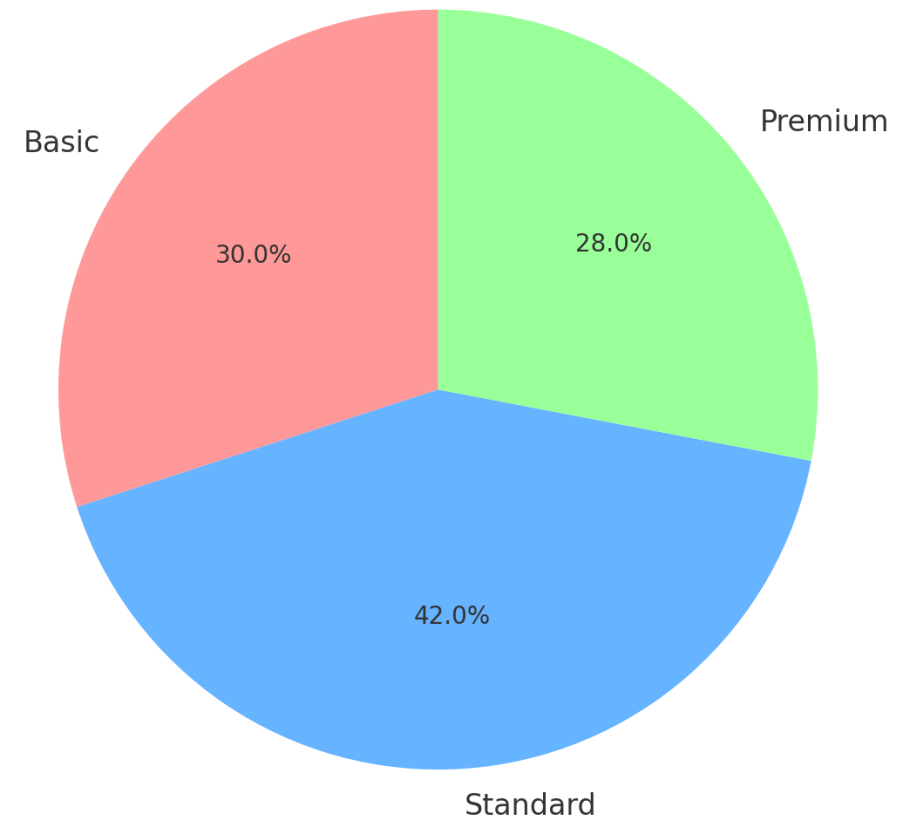
Pay-as-you-go



Netflix Pricing Model

- Netflix will be used as a case study to illustrate the process and insights
- Designed to cater to a diverse audience by offering multiple tiers with different features
- Key Factors to consider
 1. Technology & Development Costs
 2. Content & Marketing Costs
 3. ARPU
 4. Competitor Analysis
- Goal: Maximize Revenue, Customer Retention & Adaptability

Subscriber Distribution Across Pricing Tiers

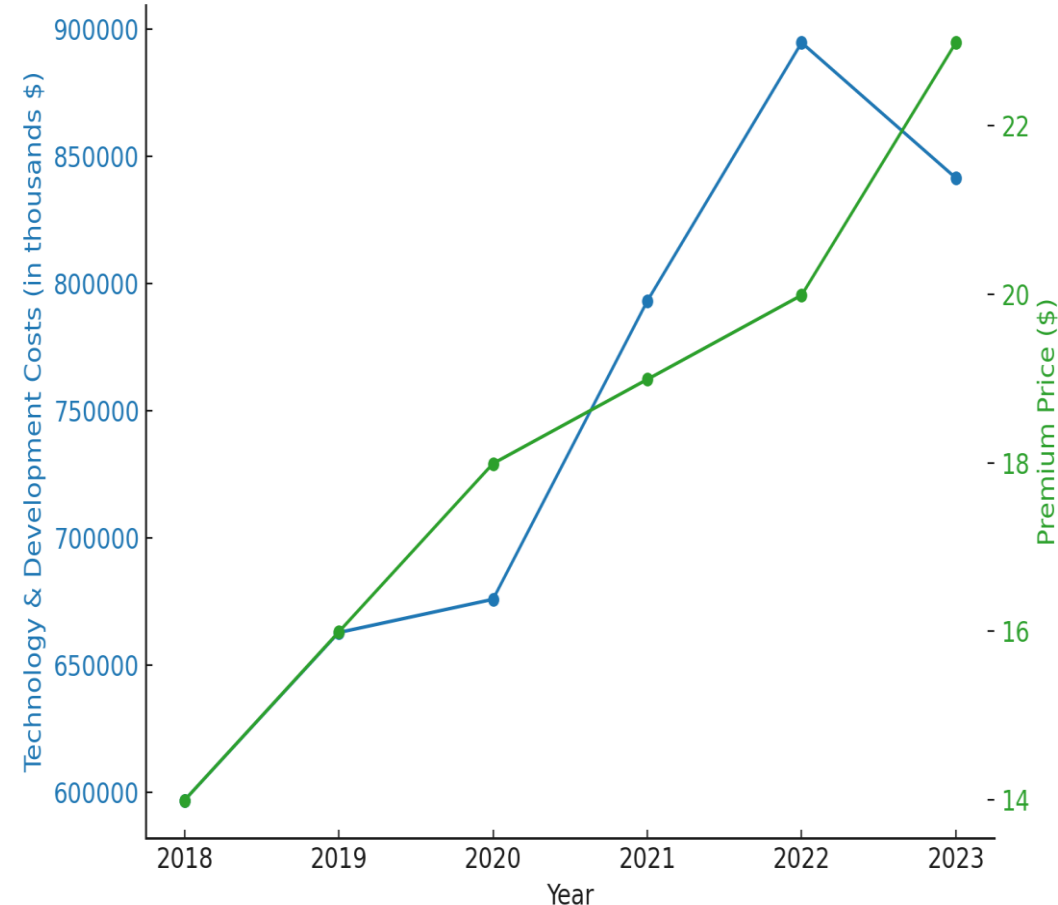




Technology Costs

- Investments in streaming technologies such as 4K, HDR, and multi-device support affect premium pricing.
- Costs include cloud, R&D, CDN, personalization engines etc.
- Companies with higher investments in technology can justify premium pricing.

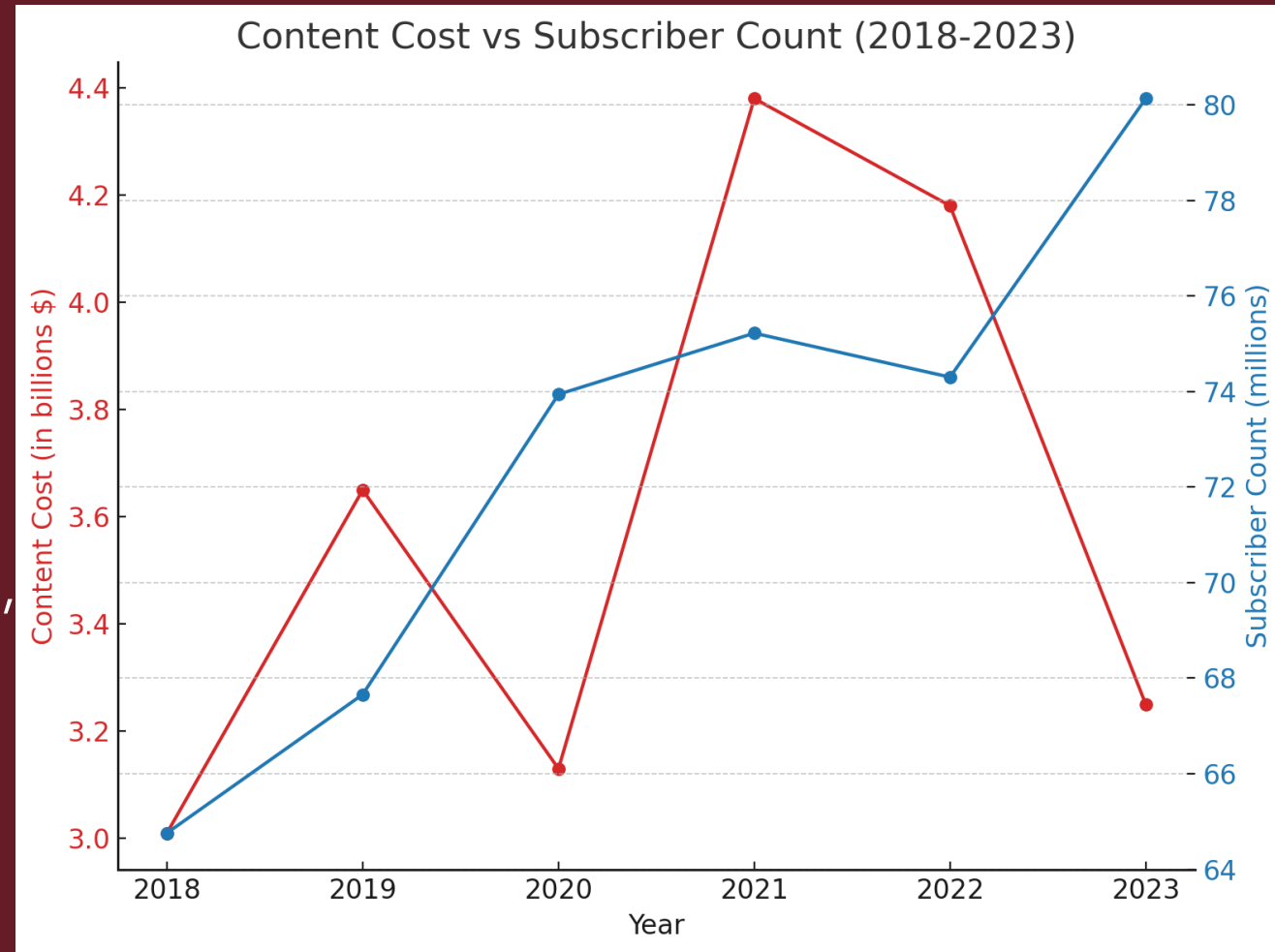
Aggregated Technology & Development Costs vs Premium Price (2018-2023)





Content Costs

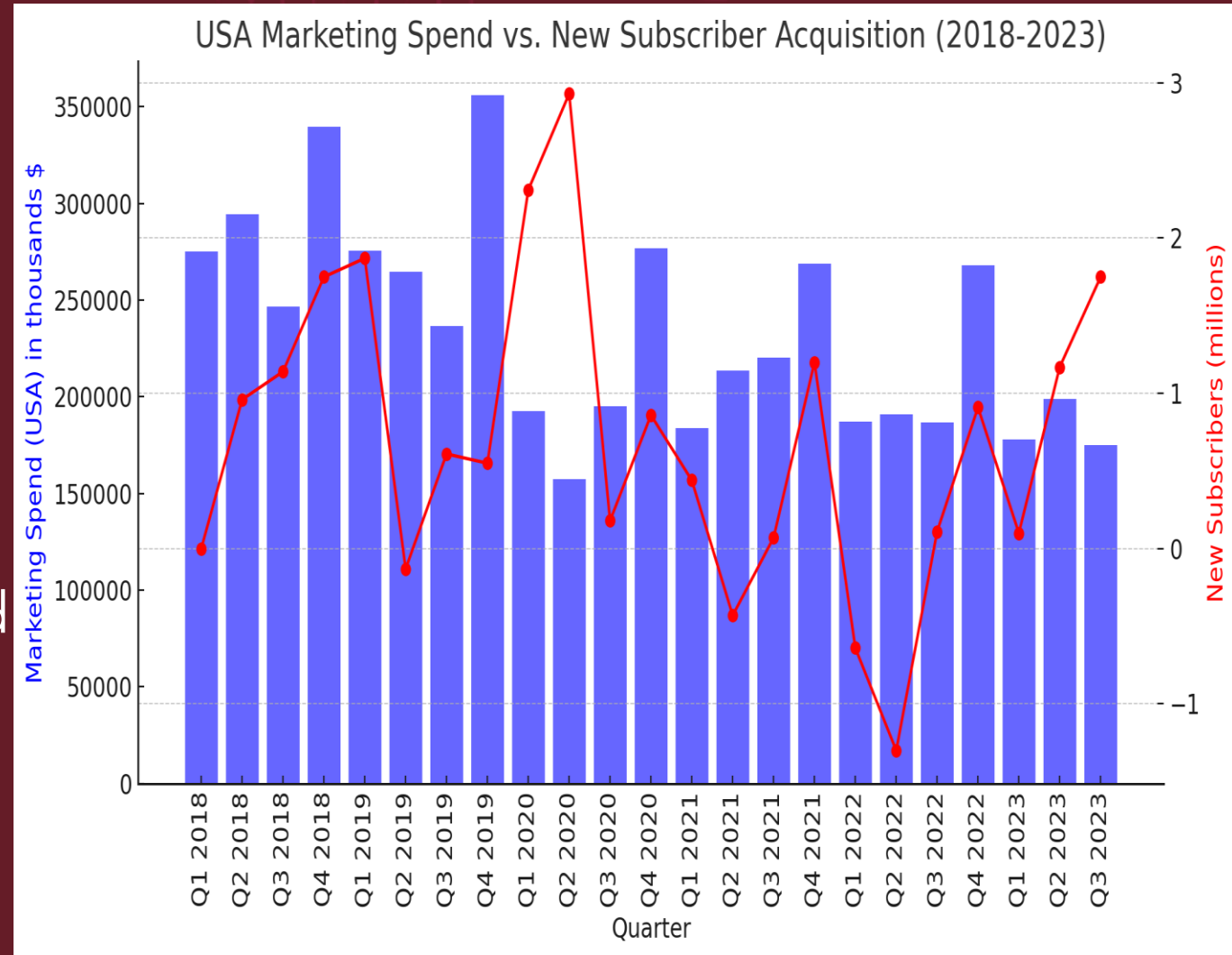
- Types of Content:
 1. Movies
 2. Original
 3. Anime
 4. TV Shows and more
- Costs include content licensing, Regulatory & Compliance etc.
- Exclusive and original content drives subscriber growth and justifies higher prices.





Marketing Costs

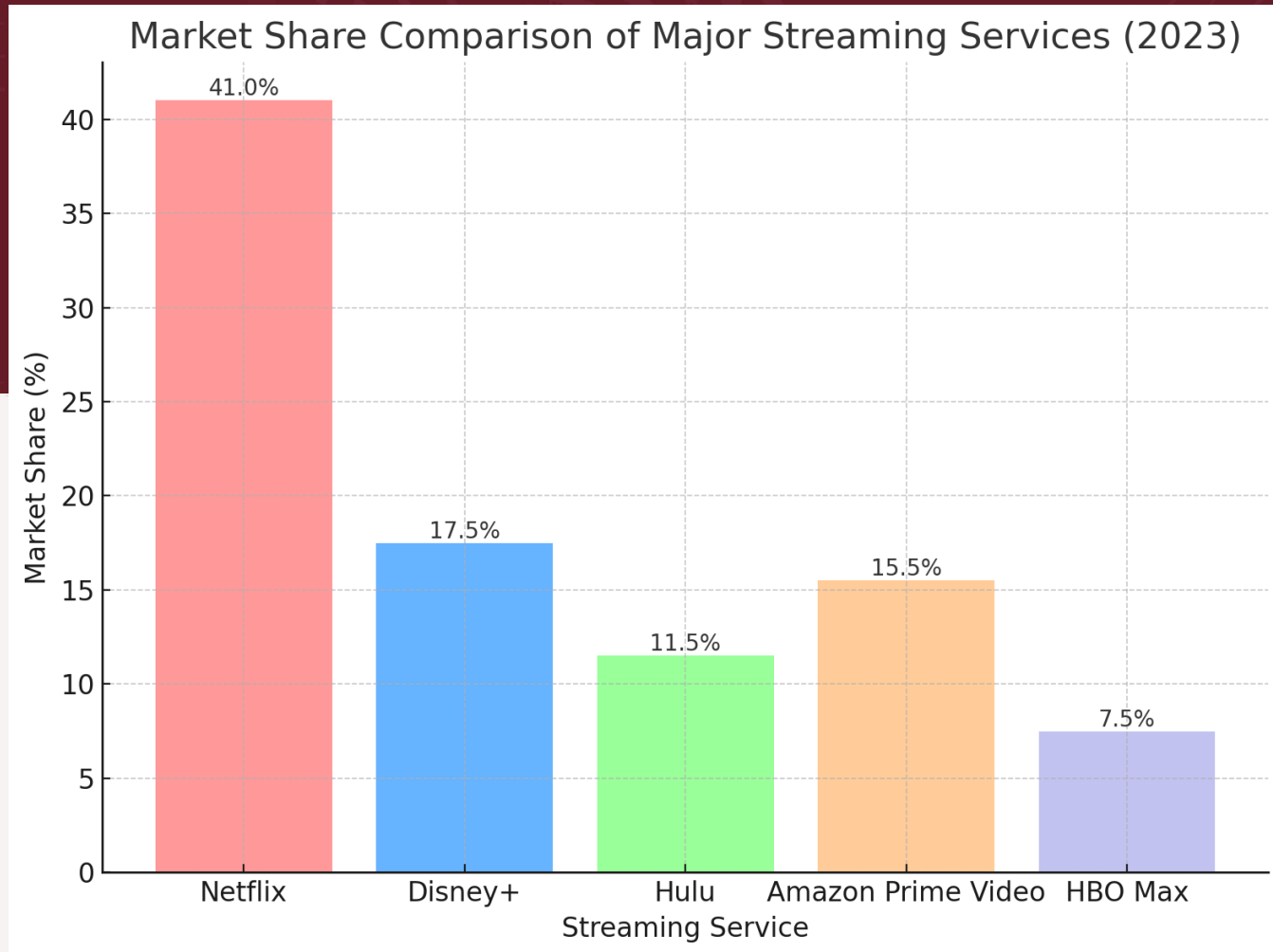
- Plays crucial role in subscriber growth
- Costs include SEO, Digital, Guerilla, and Moment marketing
- Peaks in spending are often aligned with key content releases or promotional campaigns aimed at acquiring more subscribers.





Competitor Analysis

Service	Monthly Price	Notable Features
Netflix	\$22.99	Original content, Global library
Disney+	\$13.99	Exclusive Disney, Pixar, Marvel, Star Wars content
Hulu (No Ads)	\$17.99	Hulu Originals, bundle with Disney+ and ESPN
Amazon Prime Video	\$14.99	Included with Amazon Prime, Exclusive shows and Movies
HBO Max (Ad-Free)	\$15.99	Warner Bros. films, HBO Originals



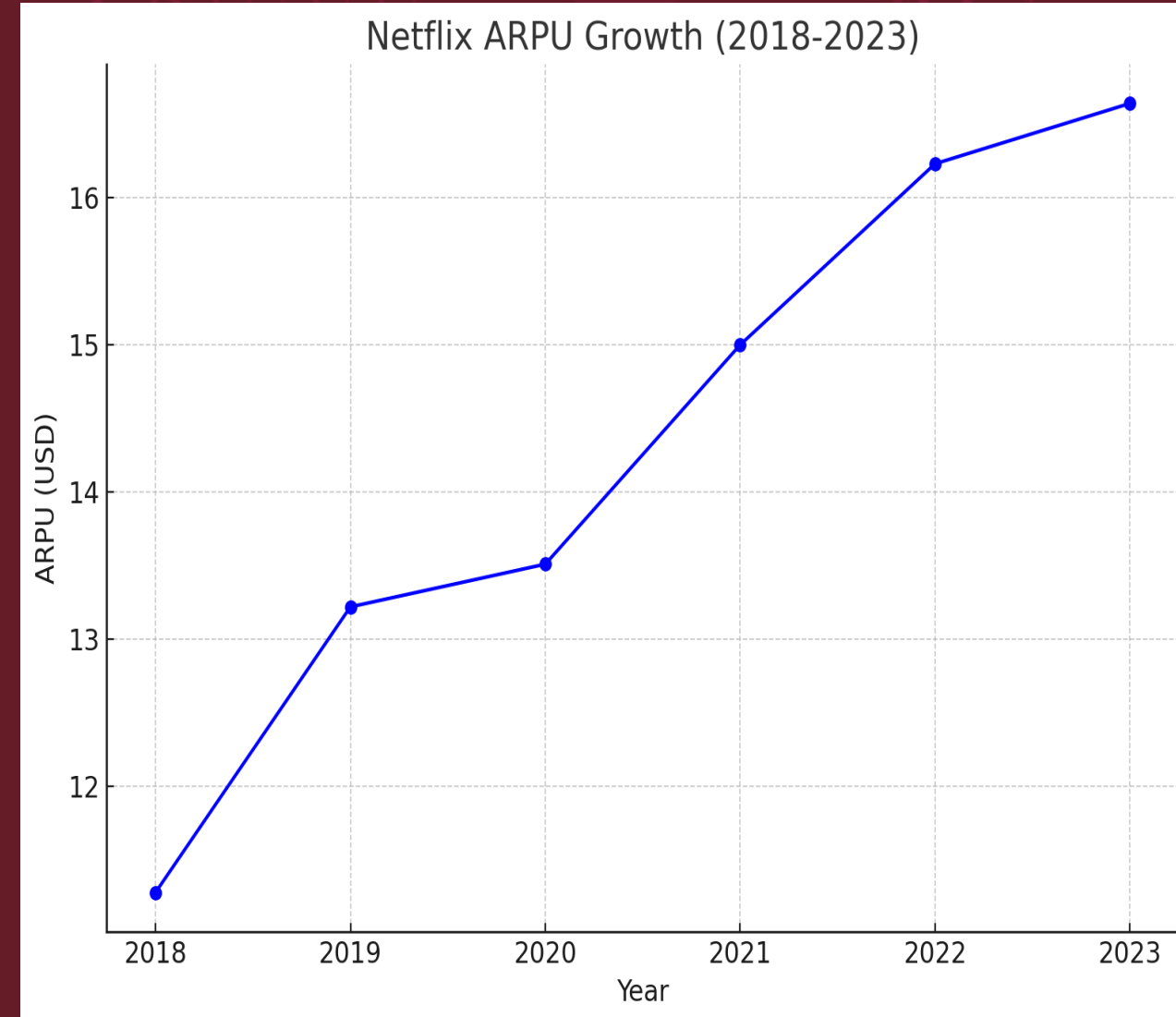
Market Share of Competitors

- The larger market share can be leveraged as a sign of customer trust and loyalty, further justifying Netflix's decision to set a premium price.



ARPU

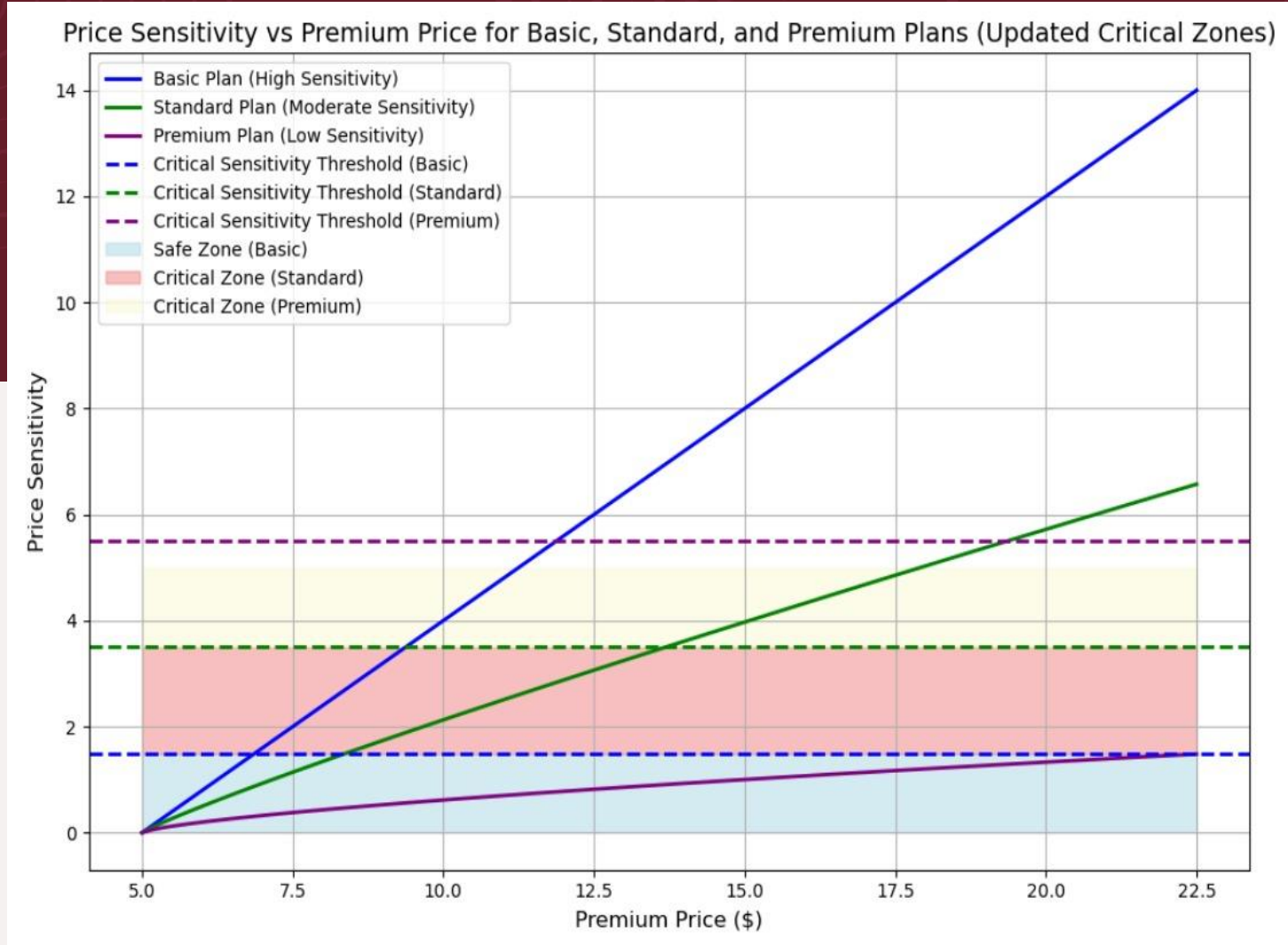
- A sign that a company is delivering value that customers are willing to pay
- Strategic Takeaways:
 1. Higher ARPU translates to more resources to reinvest in content creation, technology upgrades, and customer experience improvements.
 2. Ability to maintain a high ARPU while growing its subscriber base allows it to lead the industry, even in the face of rising competition.





Sensitivity Analysis

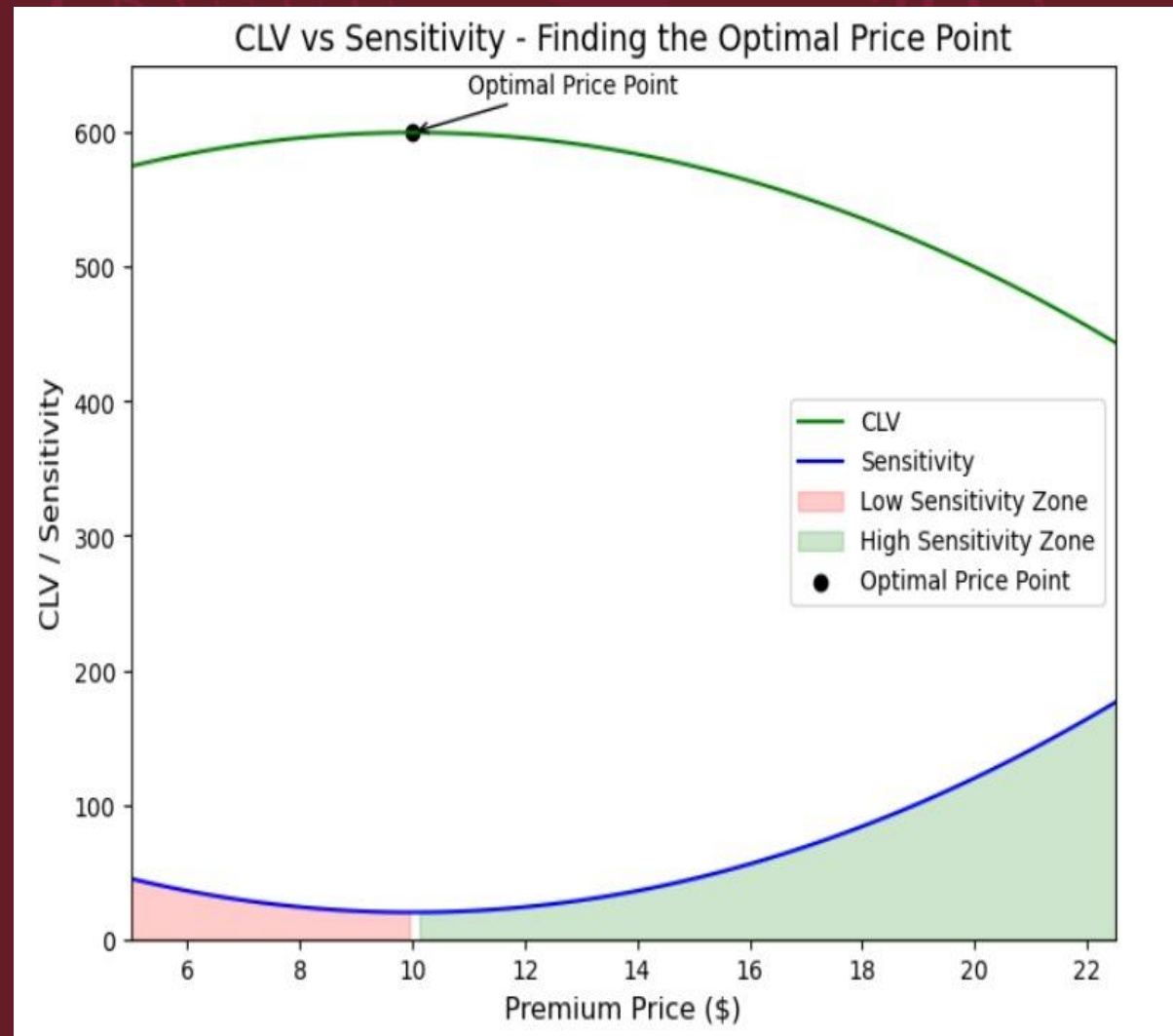
- Basic plan users are very sensitive to price increases. Even small increases can push them into a "Critical Zone," where they might downgrade or churn.
- Standard plan users are somewhat more resilient to price changes than Basic plan users but will still react if prices rise above a certain threshold.
- Premium users are more willing to tolerate price increases, making them more loyal and less likely to churn even as prices rise.





Optimal Price Point - Profitability

- CLV is generally higher at moderate price points but starts to decline at extreme pricing because the increase in price might lead to customer attrition.
- Price sensitivity increases with rising premium prices. Higher prices lead to higher sensitivity, meaning customers are more likely to cancel or downgrade their plans as prices increase beyond certain levels.





Impact of Core Factors

$$\text{Premium Price} = 10 + 0.4(\text{ARPU}) + 0.25(\text{Content Spending}) + 0.25(\text{Technology and Development}) + 0.17(\text{Subscribers}) + 0.08(\text{Marketing})$$

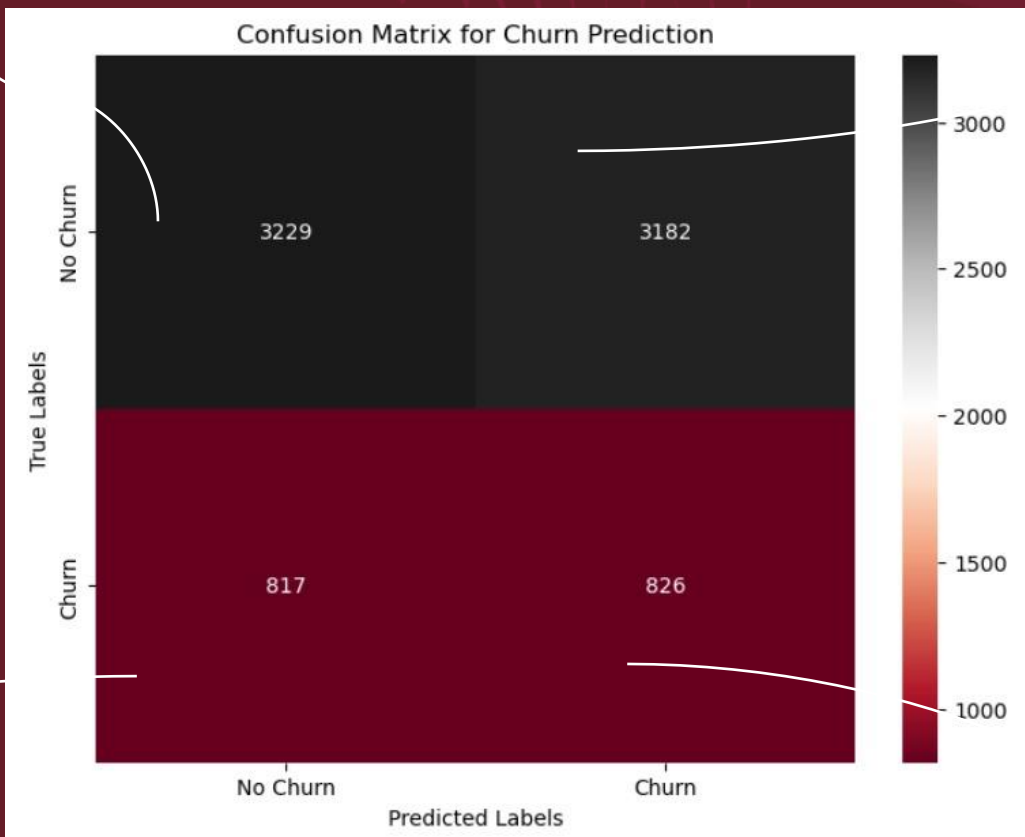
Factor	Co-efficient	Impact on Premium Price
ARPU(USA)	0.4	Strongest driver; as ARPU increases, premium price can rise more.
Content Spending	0.25	Investment in original and high-quality content justifies higher prices, attracting more subscribers.
Technology & Development	0.17	Tech investments improve service and justify price increases.
Subscribers	0.11	Mature markets drive price sensitivity; slight increases
Marketing	0.08	Effective marketing campaigns increase brand awareness, helping to maintain or slightly increase premium prices.



Churn Prediction

TN
Loyal, less likely to leave, may value premium slab

FP
Loyal, need price optimization



FN
May be service disappointments,
Need to focus on recent service
issues

TP
Price Sensitive consumers, need to
build retention strategies



Recommendations

- Leverage ARPU growth through premium features and customer retention programs.
- Invest in scalable technology and development to improve service quality.
- Focus on unique content creation to differentiate and drive premium subscriptions.
- Implement data-driven marketing strategies tailored to customer behavior and regions.
- Continuously analyze competitor pricing to stay competitive in the market.



Conclusion

- Maximizing revenue from a smaller user base through optimized pricing.
- Managing technology and development costs while scaling operations.
- Differentiating through content and targeted marketing, driving customer acquisition and retention.
- Testing pricing models and adjusting based on customer feedback and competitor analysis, ensuring they stay competitive in the market.



Questions?

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Thank You



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