

„The price is zero?“

In search for a
„Plan B“ -
Insights from
Behavioral
Economics



Gerhard Fehr - FehrAdvice



- Gerhard Fehr is a graduate of the University of Vienna with a degree in business administration and a trained journalist. He has more than ten years of management experience in investment banking, journalism, and in the Swiss credit card industry.
- His in-depth knowledge of market mechanisms, organizational structure, hierarchies, and processes, as well as his theoretical knowledge in the area of behavioral economics predestined him to be the driving force behind the development and usage of the behavioral economics approach BEA™.
- In his consulting, he focuses on the following themes:
 - Compensation systems
 - Price policy, marketing and e-commerce
 - Negotiation strategy
 - Optimization of strategic decision processes

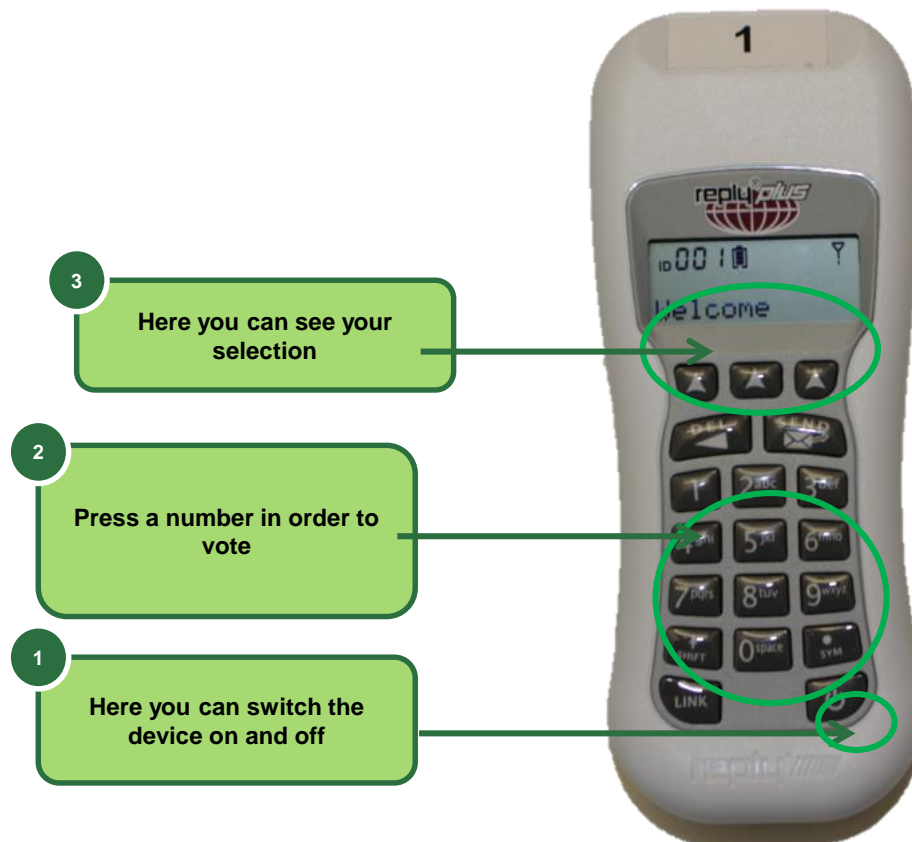
Alexis Johann – styria digital one



- Alexis is a graduate of the University of Vienna with a degree in communication science & business administration and a trained journalist with nearly 20 years experience in the media industry.
- He is managing director of styria digital one, Austria's number one digital publisher regarding reach. He heads a team of 40 people responsible for marketing several news-, lifestyle- and content platforms in Austria.
- He started his career as a business journalist, co-founded an online TV-platform, wrote books and articles on online advertising and reorganized the digital content activities of Styria Media Group, one of Austria's top media players.
- In his consulting, he focuses on the following strategy inputs:
 - digital reach
 - digital revenues
 - change management

How to use the «Voting Devices»

- In order to vote please select a specific number, e.g. 1
- If you want to change your selection, just enter another number, e.g. 2
- If there are any issues, we are happy to help you



Please answer the following questions...

Has your company already introduced a paywall or is it planning to introduce one?

1: Yes



2: No



Please answer the following questions...

Will paywalls solve the issue of decreasing profitability in the media industry?

1: Yes



28%

2: No



72%



Please answer the following questions...

Do you think users are willing to pay for online content?

1: Yes



2: Rather yes



3: Rather not



4: Not



Please answer the following questions...

What is the dominant believe in your newsroom?

«Users are willing to pay for online content»

1: Yes



2: Rather yes



3: Rather not



4: Not



Life is not easy in the media industry



“If I were to start the business today, it would probably be a Facebook page. There is an opportunity, clearly, to reach people there.

Money? That’s another matter. How do I monetize? Still not clear.”

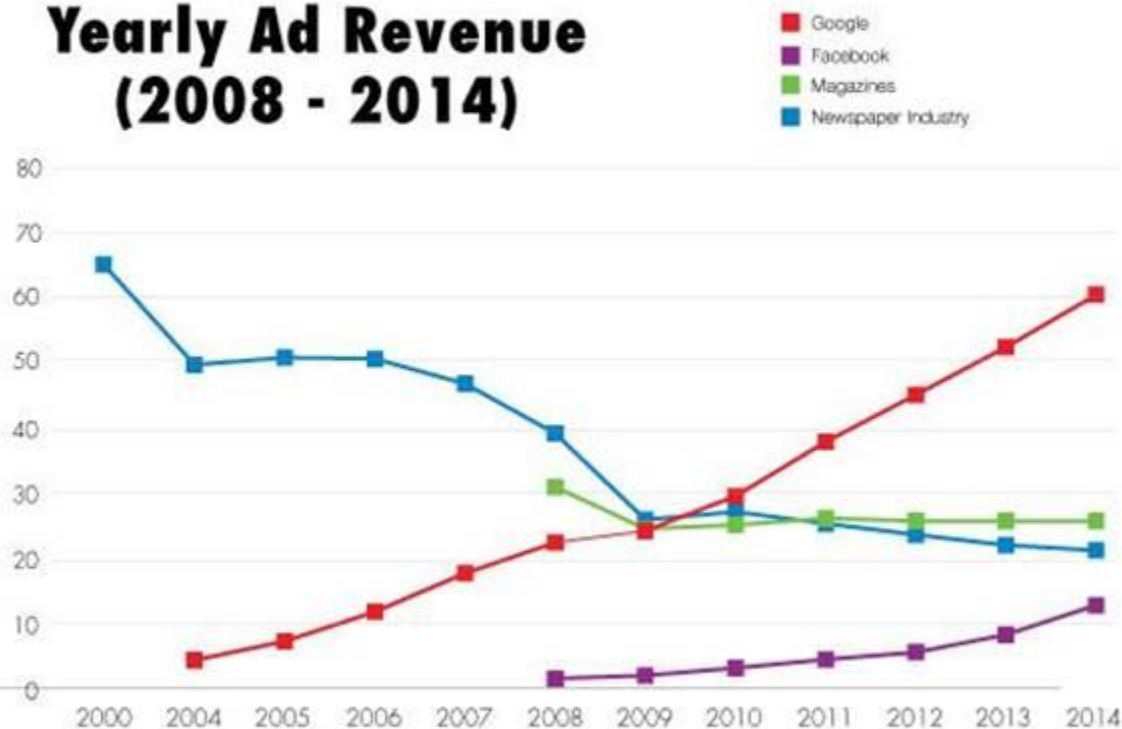
Om Malik, an investor at True Ventures (invested in Tech news site Gigaom)

New York Times, April 18th 2016

http://www.nytimes.com/2016/04/18/business/media-websites-battle-faltering-ad-revenue-and-traffic.html?_r=0

Google and Facebook soak up most of fresh advertising revenues

Yearly Ad Revenue (2008 - 2014)

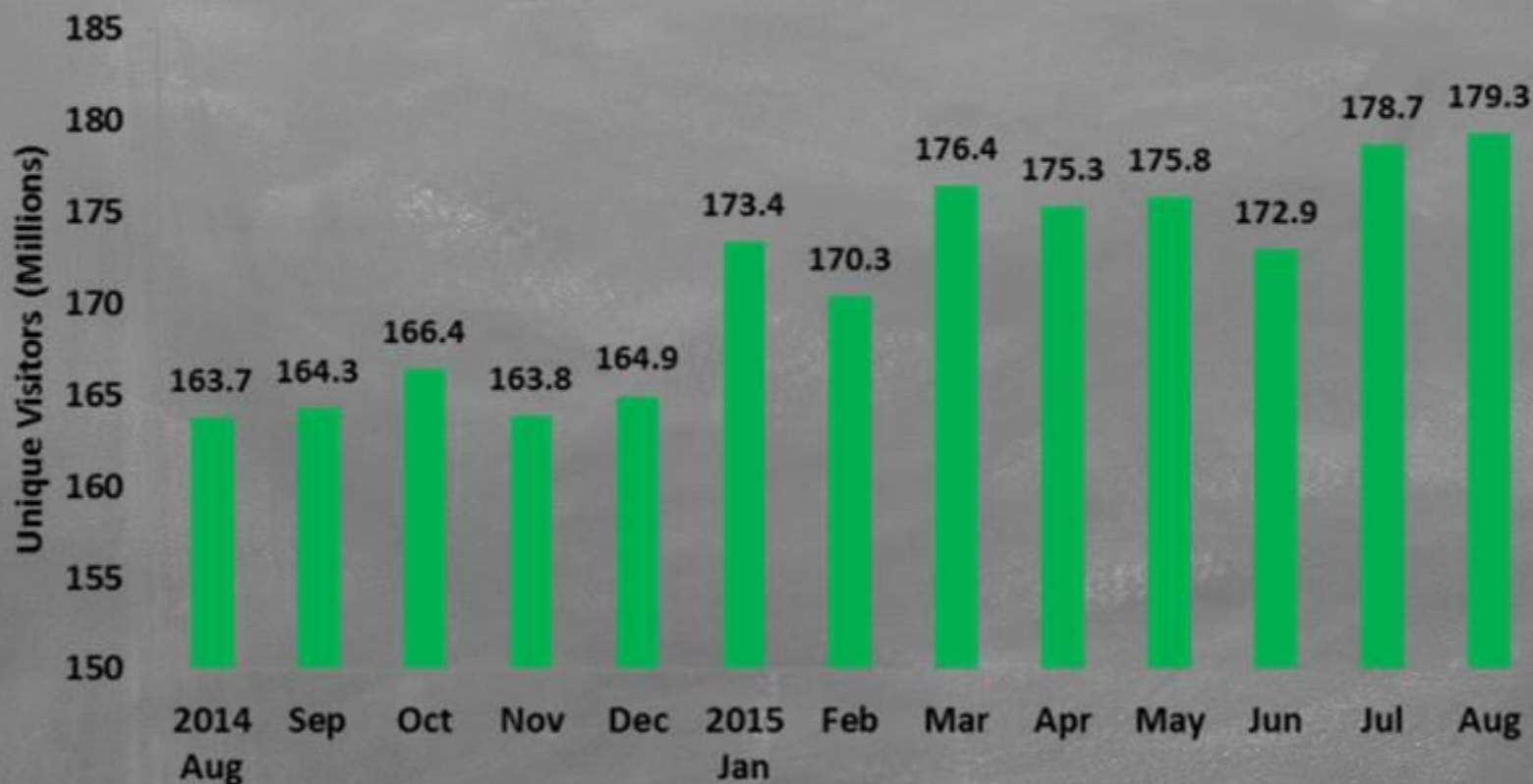


“85 cents of every new dollar spent in online advertising will go to Google or Facebook”
Brian Nowak,
Morgan Stanley

Digital news audiences grow twice as fast as overall internet traffic

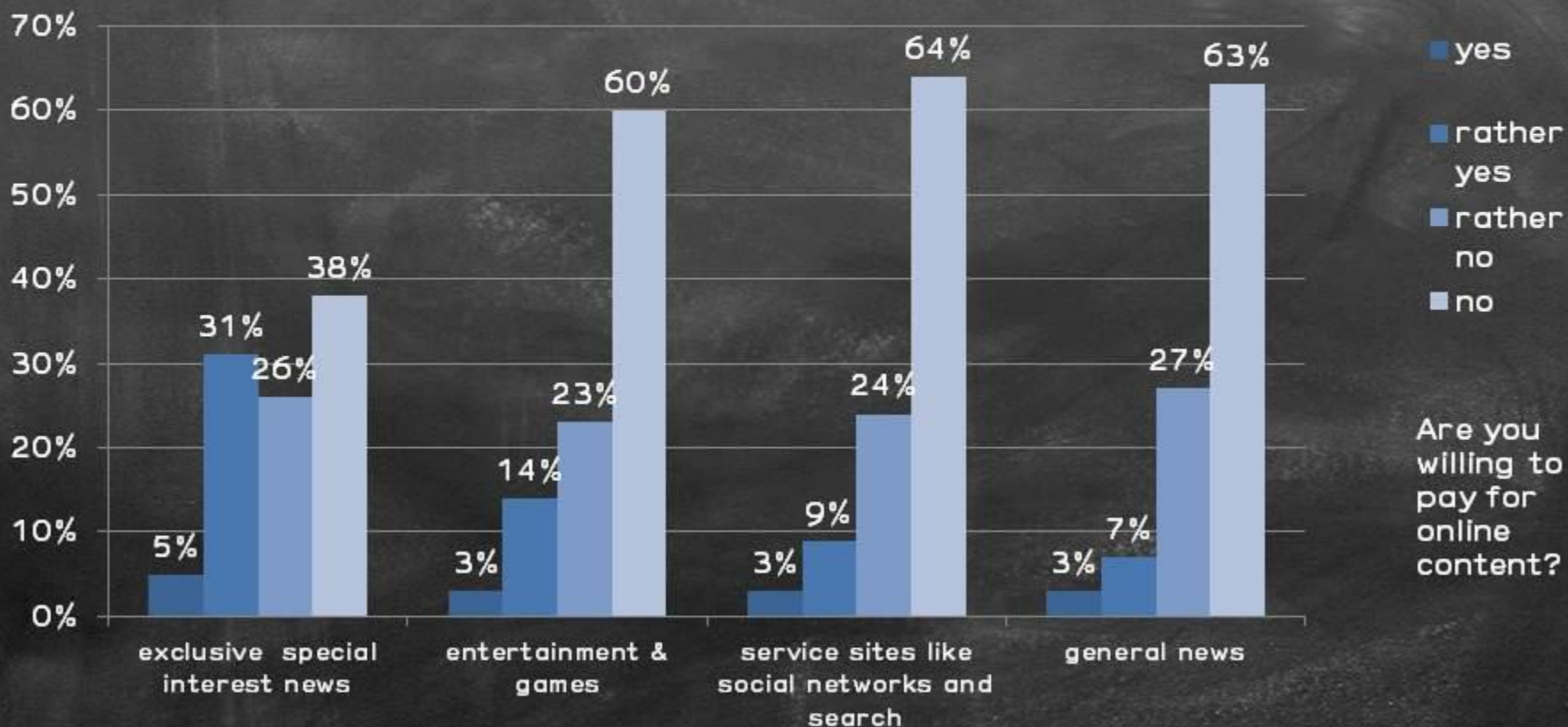
Newspaper Digital Audience

Unique Visitors (Adults 18+)



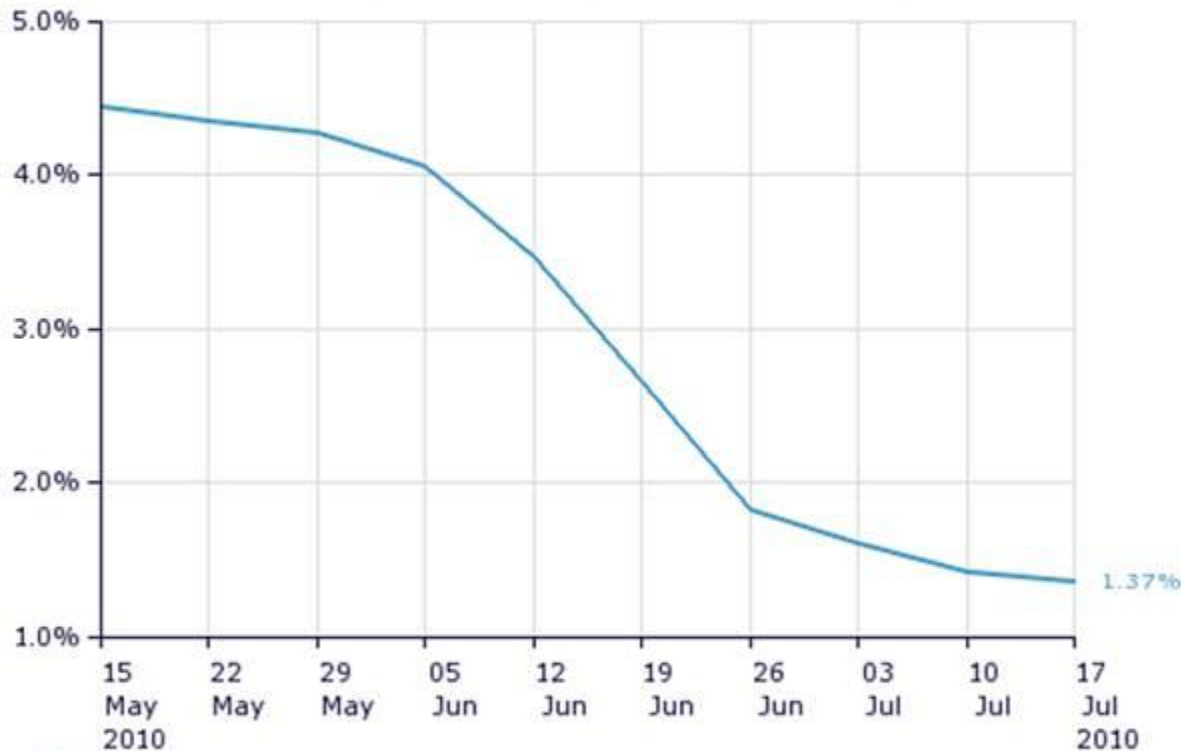
But bad news is: Users love the „free“ web

90 % are not willing to pay for online news.



Therefore traffic drops, as soon as publishers introduce paywalls

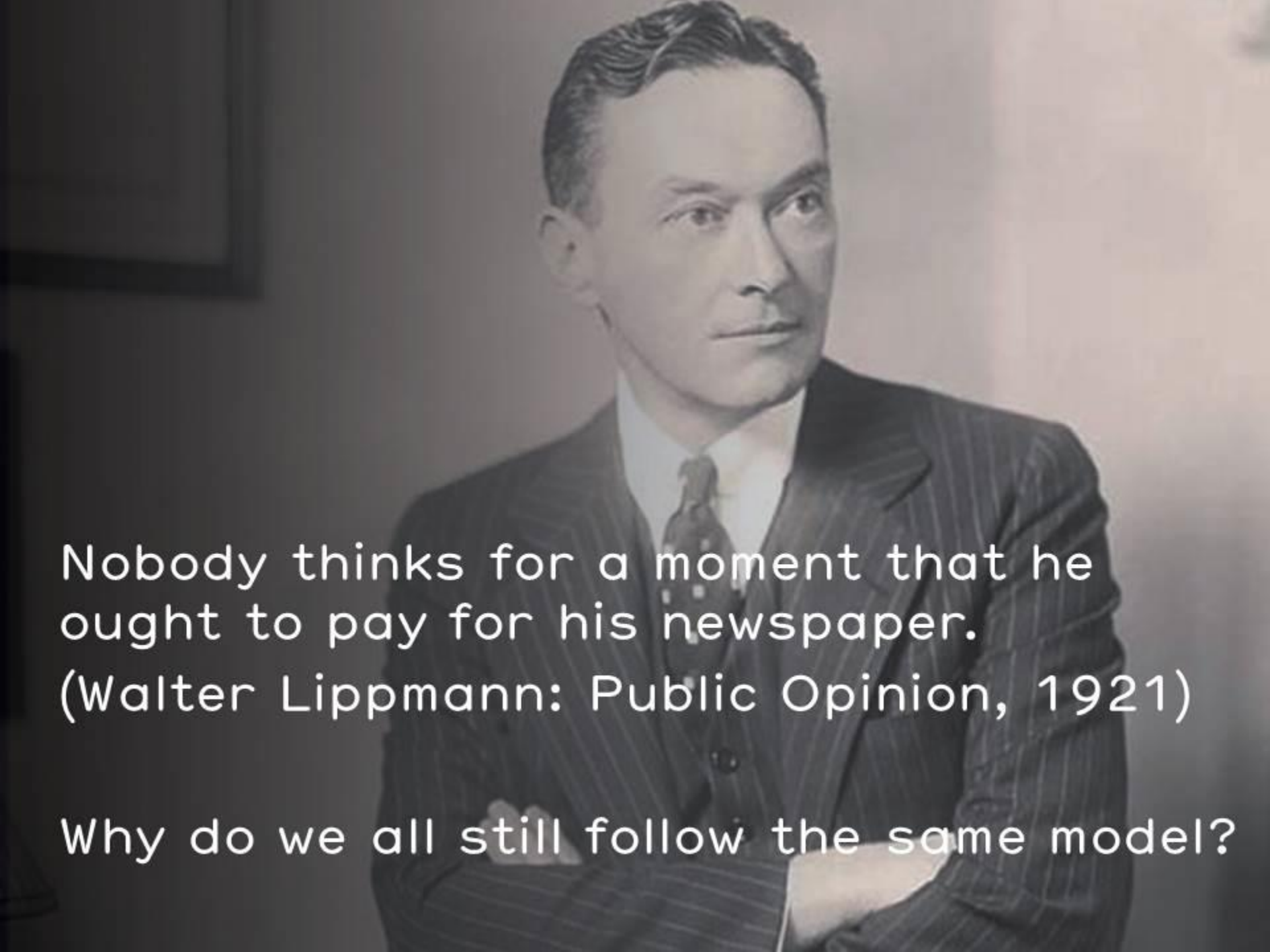
Times Market Share of Online Print Media



■ www.thetimes.co.uk

Weekly market share in 'News and Media - Print', measured by visits, based on UK usage.

Created: 20/07/2010. © Copyright 1996-2010 Hitwise Pty. Ltd. Source: Experian Hitwise UK



Nobody thinks for a moment that he ought to pay for his newspaper.

(Walter Lippmann: Public Opinion, 1921)

Why do we all still follow the same model?

Need for a „Plan B“

- Media companies therefore need a „Plan B“ for profitability, a strategy to open up new revenue streams (paid content) without losing reach
- A strategic concept as well as practical approaches are needed to increase usage, frequency of visits and the willingness to pay.
- behavioral economics delivers valuable insights for these measures

How does a „Plan B“ look like?

- Do I have a cooperative relationship with my customers?
- Do I have a transactional relationship with my customers?



Basic requirements for cooperative relationship with readers

- Strong brands – reputation among target audience, perceived quality advantage
- Low substitutability – few or weak competitors, niche segment
- Active and loyal readers – high usage frequency
- Price sensitivity of customers – wealthy users and corporate subscribers



The right pricing for a digital newspaper?



The concept of reference prices



From a consumer perspective the reference price is the acceptable price for a product or service, that is compared to similar offers.

So the reference price is the fair price.

It is influenced by

1. Past buying decisions
2. Friends
3. advertising

- The reference price has a high impact on demand and results from experiences. *

*Gurumurthy Kalyanaram und Russell S. Winer 1995 - <http://www.fehradvice.com/blog/2011/11/16/bee-pricing-warum-referenzpreise-essenziell-fur-richtiges-pricing-sind/>



Which chocolate do
you prefer?

Which chocolate do you prefer?



Which chocolate do you prefer?



70 %



30 %

Which chocolate do you prefer?



FREE

Which chocolate do you prefer?



30 %

FREE

70 %

The zero price trap

- Free offers create positive emotional experiences
- In an affective condition, people tend to choose the free good, even if it is of inferior quality
- In a world, where everything is free of charge, the one who asks for money will lose market share.





So what can we do now?

**Not everything
that counts can be
counted, and not
everything that
can be counted
counts.**

Albert Einstein

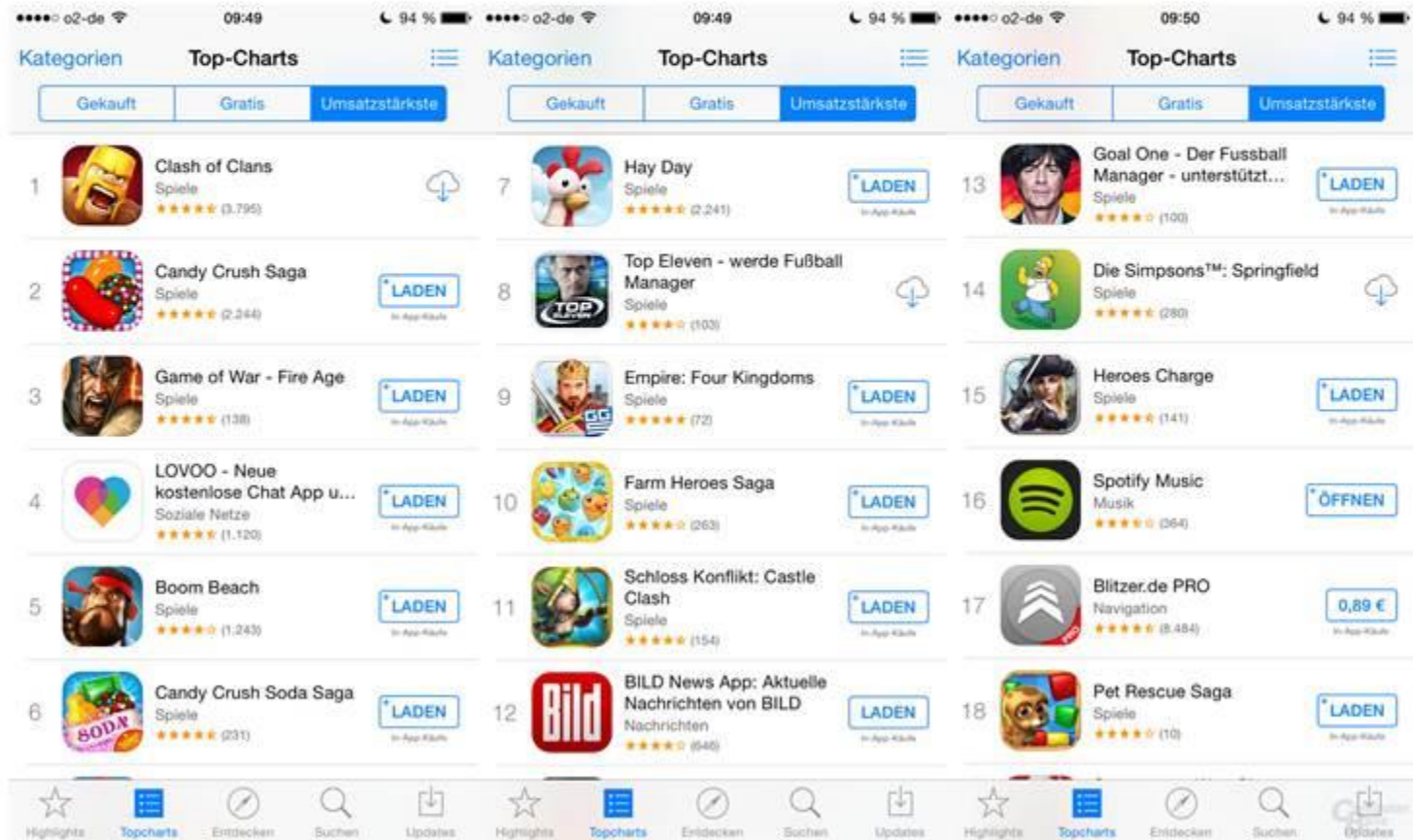
Why is Paid Content that unattractive?

- Decisions are based on experiences
- The reference price for content is zero
- Zero is an especially attractive reference point
- As soon as an offer shifts from zero, the drop in demand will be huge



Human
behaviour is
irrational

Look into the appstore and remember reference price for online games is zero











5 steps to
shift the
reference
point

Step 1: Change the context in which the buying decisions are made

- Newspapers support peoples social status
- What if we rewarded brand loyalty and portal usage instead of punishing it?
- Users might not be willing to pay for content, but they might be interested in exclusive memberships and social status
- What kind of community features do newspapers have on offer?
- Think of all the intangible goods the brands have access to.

Bringing you exclusive events, offers and members-only extras

 <p>Premiership RUGBY evening at Twickenham</p>	Events	From concerts to talks with leading minds, Times+ gets you in	 <p>Meet GREAT Minds</p>
 <p>WIN a holiday in the Caribbean</p>	Offers	Daily special offers, private events, VIP tickets. Times + gives you more.	 <p>Win £2000 to spend at Bicester Village</p>
 <p>Download the best of The Times</p>	Extras	Free ebooks, competitions and cultural previews. Times + keeps on giving.	 <p>Enjoy GREAT gardening events</p>

Step 2: Introduce new price anchors and strategic offers

- Different price offers influence each other intensively.
- An „expensive“ strategic offer can shift the reference point.
- People prefer default options, it is easy to introduce them.
- So: Be clear, which product you want to sell and use anchors.

The screenshot displays a subscription selection interface for 'styria digital one'. At the top, there are tabs for 'Regular subscription', 'Student subscription', and 'Gift subscription', along with a link to 'Renew existing subscription >'. Below these are three main offer cards:

- Digital:** 12 weeks for just €57. Features include full access to Economist.com and The Economist in audio, full access to The Economist apps, and The Economist Espresso. A 'VIEW OFFERS' button is at the bottom.
- Print + Digital (BEST OFFER):** 12 weeks for just €69. Features include weekly delivery of The Economist in print, full access to Economist.com and The Economist in audio, full access to The Economist apps, and The Economist Espresso. A 'VIEW OFFERS' button is at the bottom.
- Print:** 12 weeks for just €57. Features include weekly delivery of The Economist in print. A 'VIEW OFFERS' button is at the bottom.

At the bottom of the page, the 'styria digital one' logo is visible on the left, and there are three 'VIEW OFFERS' buttons corresponding to the subscription options above.

Step 3: Decrease the salience of the reference price



- If the reference price for content is set, what about introducing a new currency? This makes it difficult to compare prices.
- Take a look at the online gaming industry, that is leading appstore revenue charts. They offer the first package of „Juwels“ for free.
- As a gamer uses the new currency the first time, the reference point already shifted from zero.

TOP-IN-APP-KÄUFE	
1. Handvoll Juwelen	0,99 €
2. Juwelenbeutel	4,99 €
3. Juweleneimer	9,99 €
4. Juwelenfass	19,99 €
5. Juwelenkarre	49,99 €
6. Juwelenhaufen	99,99 €

TOP-IN-APP-KÄUFE	
1. Häufchen Diamanten	1,99 €
2. Säckchen Diamanten	4,99 €
3. Sack Diamanten	9,99 €
4. Kästchen Diamanten	19,99 €
5. Säckchen Diamanten (Der WWF erhält 100 % des Erlöses)	4,99 €
6. Kiste Diamanten	39,99 €
7. Kästchen Diamanten	2,99 €
8. Säckchen Münzen	2,99 €
9. Häufchen Münzen	0,99 €
10. Sack Münzen	7,99 €

★★★★★ (23) Altersfreigabe: 12+ TOP-IN-APP-KÄUFE	
1. 1200 Gold	4,99 €
2. 50000 Gold	99,99 €
3. 3600 Gold	19,99 €
4. 1540 Gold	9,99 €
5. 3300 Gold	19,99 €
6. 9600 Gold	49,99 €
7. 26000 Gold	99,99 €
8. 26100 Gold	99,99 €
9. 26200 Gold	99,99 €
10. 2000 Gold	4,99 €

Step 4: Introduce new mental accounts

- Is your newspaper able to offer special member deals?
- People are ready to pay for special member rewards.
- What if you had to „work“ to get access? Think of bonus miles!
- If the users mental „content account“ is empty, create a new account, which is full!



Step 5: Harvest the IKEA-effect: Engage users with brand and content

- If we work hard to obtain a good, we attribute more value to it*.
- Imagine users earn „bonus miles“ for the usage of a newspapers app. They can invest the miles for rewards or exclusive content.
- The reference pricing is now linked to their invested personal effort to acquire the miles.
- They try to avoid the loss of their benefits and become loyal users.



Case study: Diamonds are a Girl's best friend

- STYRIA's magazine „miss“ introduced „diamonds“ - a member programme
- App-usage and community interactions are incentivized
- Loyal users are rewarded with special deals, trading in their diamonds
- Most successful product is two month print subscription for 17 diamonds
- Reference price has shifted

Users pay full price subscription if rewarded with additional diamonds



How to introduce „Plan B“: Create a cooperative relationship with your users

1. Change the context in which buying decisions are made
2. Introduce new price anchors and strategic offers
3. Decrease the salience of the reference price
4. Introduce new mental accounts
5. Engage users with your brand and content



Buying behaviour is influenced by reference prices. The reference point can be shifted using behavioral economics and behavioral insights.

Please answer the following questions...

What is your opinion?

Which strategy will be more successful for increasing customer loyalty, increasing traffic and increasing subscriptions?

1: Paywall



29%

2: “Plan B”



71%





Alexis Johann, styria digital one
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Get your own project started and meet us:
@ Digital Media Europe 16
www.fehradvice.com www.sdo.at