Dynamic Pricing – Dynamic Start-Up

Reto Trachsel, Jonas Meuli, Judith Noerpel-Schneider | Pricenow Founding Team

Dynamic Pricing is on the rise – more and more industries adapt this compelling pricing strategy and benefit from a reduction in operating risk, a higher flexibility towards changing market environments and substantial increases in revenue. Pricenow, a leading start-up in Dynamic Pricing, explains how they have initiated a profound transformation in the European mountain railway industry.

In the latest sales radar from PWC about Dynamic Pricing (2019) it says, four out of ten companies adjust the prices for their products and services at least once a week — although they often lack the digital support to do so. This is because few companies calculate prices and offers automatically. The calculation of prices mainly takes place with individual tools and less dynamic spreadsheets, which costs a lot of resources. Therefore, automated pricing has a positive effect on backoffice and distribution efficiency. Further, more and more businesses in different fields are interested in Dynamic Pricing as such: companies in the transport, leisure or hotel industry and even media advertising agencies are paying attention to Dynamic Pricing. This was also noticed by Pricenow, a dynamic start-up that offers holistic price optimization for companies.

How it all started

While Dynamic Pricing has already been established for many years in several industries, a change is now also taking place in the mountain railway industry. What was unthinkable less than 5 years ago in the European Alps is now growing rapidly. As of last winter season, eight ski resorts in Switzerland implemented a dynamic pricing model — now, only one season later, more than 70% of the largest Swiss ski resorts have switched to Dynamic Pricing.

The idea of Dynamic Pricing for the mountain railway industry has matured over the last years in the founding team of Pricenow. "As students we could not understand why we should pay the same price for a ski ticket when slopes were nearly empty during off-season or due to mixed weather conditions. Or an early bird ticket did not have an attractive price incentive to commit early and bear the weather risk. In short: for us, the fixed prices at the cash desk did not reflect the ever-changing conditions and accordingly did not match our willingness to pay," tells Jonas Meuli, co-founder of Pricenow. "And at the same time, we had the feeling that the situation could not be optimal for the mountain railway companies either. They were confronted with high fixed costs to operate their lift capacities while facing strong customer fluctuations."

During their final semesters at the University of St. Gallen, the Pricenow founding team therefore decided to lay the foundation for the young company — and put a mere idea into practice. Today Pricenow is one of the leading providers in the field of Dynamic Pricing for ski resorts and other touristic activities. The company offers an integrated approach for Dynamic Pricing, Data Analytics and e-Commerce on a fully automated and cloud-based software solution.

Mountain Railways and Dynamic Pricing

Almost simultaneously with the founding idea, the Swiss mountain railway market came under pressure due to the unfavourable exchange rate of the Swiss Franc and newly implemented controversial discount pricing strategies for annual ski passes. On top of that, many ski resorts were facing the challenge to convincingly incentivize their customers to use online channels for their ticket purchase, which in turn would allow the companies to collect valuable customer data. Ideal starting conditions to establish Dynamic Pricing in a promising way.

Dynamic prices for ski resorts are determined on a variety of alternating, external factors. For example, the expected demand, demand elasticity or the

time of booking play a decisive role in setting up an optimal pricing model. The complex relationships between the individual factors are ultimately mapped into an algorithm. Every day more than 80,000 price adjustments are calculated by Pricenow's Price Engine on a fully automated basis and fed directly to the desired sales channels. Holistic pricing decisions are only possible with state-of-the-art data analysis. Therefore, Pricenow invests a lot of time to make accurate demand forecasts and to identify price elasticities, providing their customers support in analysing their data. Furthermore, the company makes use of detailed market researches on site of the ski resort to gain a comprehensive understanding of the ski resort's customers and their willingness to pay. Thanks to the latest technologies and the use of Machine Learning models, their Price Engine can take into account complex and multi-dimensional relationships between price and purchase decision and to continuously optimize prices, which sustainably increases both sales and profits. A recent analysis of the last Christmas high season showed that the revenues of benchmark ski resorts in Graubünden increased by 2.6 to 11%, while partner ski resorts of Pricenow with a holistic Dynamic Pricing in the same region of Switzerland could achieve a revenue increase of around 17%. This is an outperformance of 54% to 653% compared to the benchmark .

Challenges as a young company

Like any young company, however, Pricenow faces a number of challenges on its path to growth. "We know that new things can often initially cause anxiety and a certain defensive attitude. Innovative ideas sometimes clash with long-standing traditions. Dynamic Pricing offers great potential for our customers, but of course in a first step this means big changes for a company," explains Judith Noerpel-Schneider, co-founder of Pricenow. Therefore, Pricenow places great emphasis on setting up a detailed implementation process bringing relevant key players from different departments such as finance, sales and marketing, on board.

The ski resort industry is in a strong digitalization process, giving room as well to already existing competitors, that are trying to benefit from the rapidly changing field of Dynamic Pricing. "This forces us to question our services and offers again and again. Do we create the desired added value for our customers? Can we improve further? And how can we standardize special customer solutions at a certain level to earn scale-effects in the long-run?" says Reto Trachsel, co-founder and CEO of Pricenow.

Pricenow's next goal is to expand into international markets within the tourism and mountain railway industry. Dynamic Pricing is becoming more and more a topic in French, Austrian or Italian ski resorts. And of course, Pricenow is already planning the next big step: scaling up the business into a second industry. The Price Engine has been constructed and configured in a way to calculate an optimal price for any kind of product or service. "Pricing — what we love to do" embodies Pricenow's work philosophy every day anew. The steadily growing team behind Pricenow is not only enthusiastic about its service activities, but also about the industries and products it prices. Together they are aiming at reaching their next milestones dynamically.

Pricenow Founding Team

As three-headed Pricenow founding team, Reto Trachsel (29), Jonas Meuli (31) and Judith Noerpel-Schneider (28) are dynamically on the move. Their complementary skills in data analysis, finance and business administration make the team a powerful unit. All three founders have a master's degree in business administration or economics. In 2017, the team founded the Skinow GmbH, which was transformed into Pricenow AG only about one year later and has since established itself as a technology-based company for Dynamic Pricing and Data Analytics. In the summer of 2019, two of the founders won the "30Under30" award - making them, according to Forbes, one of the "most influential young entrepreneurs in the category "Tech" of the DACH region".