Objectives

- Explore at an intermediate level the pricing environment of an internet service provider
- Review the processes & supporting pricing tools for the 2 fundamental revenue models
- Stimulate discussion on the various process elements, decision problems, and approaches to solve them
- Ultimate goal: Increase awareness of the related problems & stimulate interest in solving these problems among the research community

Internet Services Company

- 2 Fundamental Revenue Models:
  - Advertising Revenue
    - ISP sells exposures in specific demographics to advertisers
    - Some sales are direct to advertisers, others go through an agency
  - Subscription Revenue
    - Customers/Members pay for certain premium services
    - Email
    - Financial News
    - Selling directly to consumers, as well as commercial accounts

Agenda

1. Review of Internet Services Business
2. Strategic & Tactical Decisions
3. Ad Revenue Based Business Process & Tools
4. Subscription Revenue Based Business Process & Tools

Advertising versus Subscription Revenues
Strategic Pricing (& Related) Decisions

- Which segments of demand should we attack?
  - Ad revenue business
  - Subscription business
- What properties should we offer (content)?
  - What content draws the largest audience?
  - How much will customers pay for certain content/audience (CPM)
  - What kind of content will support subscriptions?
- Set targets for revenues, costs, EPS?
  - This year
  - Next 3 years

Tactical Decisions

- Set list prices
  - For ads
  - For subscriptions
- Respond to competitive actions
- Price individual contract commitments
- Plan promotional spending
- Revise annual budget targets

Operational Decisions

- Spot placement
  - Advertiser
  - Property
  - Position
  - Demographic
- Price / availability adjustment
  - Adjust prices for the spot market
  - Limit availability by discount level
- Content selection. Ideally content focus responds to market demands.

Strategic Decision Horizon

Tactical Decision Horizon

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Decision Support Tools for Ad Business

- Supply Forecaster: Estimate page views by demographic
- Strategic Demand forecaster: Estimate total spend & CPM by ...
  - Industry segment
  - Demographic
  - Key account
  - Time of year
  - Property
  - Time of day
- Precision Pricing: Set list prices for advertising spots far in advance of airdate.
  - Prices by time of year, time of day, property
  - Uses a prices sensitive demand forecast

Decision Support Tools for Ad Business (continued)

- Target Pricing: Set pricing guidelines for recurring contracted sales
  - Target CPM + range by account
  - Models price response
  - Uses extensive account sales history
- Proposal System: Support the development of contracted advertising
  - Multiple spots, across time & properties
  - One, or more targeted demographics
  - Includes optimal placement capability
- Ad Server: Allocate spots to specific page views, based on ...
  - Demographic characteristics of the user
  - Contract commitments
  - Model of future supply & advertising demand

Decision Support Tools for Ad Business (continued)

- Tactical Demand forecaster: Estimate & adjust demand forecast as airdate approaches
- Precision Pricing: Update list prices for advertising spots as airdate approaches
  - Primarily for spot market sales
  - Uses tactical demand forecast
- Revenue Management: Adjust availability based on demand
  - Most like ‘traditional’ (airline) RM
  - Controls access to high-demand properties for discount advertisers
  - In some selling environments, may be an alternative to frequent price, list updates

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Pricing Decision Support for the Subscription Revenue Based Business

**Decision Support Tools for Subscription Business**
- Strategic Demand forecaster: Estimate total demand by ...
  - Service
  - Time of year
  - For both individual & contracted/bundled services
- Precision Pricing: Set list prices for services
- Promotions Pricing: Set optimum levels of promotions spending by
  - Set spending levels by service, customer segment, time of year
  - Models customer response by promotion type over time
- Target Pricing: Set pricing guidelines for contracted services

**Related Capabilities**
- Data Mart / Data Warehouse
  - Central repository for pricing & revenue data
  - Used to support ad hoc query requests and strategic decisions
  - Often a good first step
- Revenue forecasters
  - May leverage PRO forecasters to supply this information
  - Understanding earnings projections is critical