

# Specialty Solutions

## 2023 Pricing Strategy

December 2022

## Table of Contents

<b>Introduction.....</b>	<b>2</b>
<b>Pricing Strategies .....</b>	<b>3</b>
<b>Competition based pricing .....</b>	<b>3</b>
<b>Cost-Plus Pricing Strategy .....</b>	<b>3</b>
<b>Dynamic Pricing Strategy .....</b>	<b>3</b>
<b>Bundle Pricing Strategy.....</b>	<b>3</b>
<b>Competitor Analysis.....</b>	<b>4</b>
<b>Recommendations .....</b>	<b>7</b>
<b>Discussion .....</b>	<b>8</b>
<b>Conclusion .....</b>	<b>9</b>

## Introduction

Specialty Solutions (SS) sends volunteers from Europe and the USA to Tanzania where they are provided with accommodation, food, and community activities. Volunteers spend their time teaching children, nursing in hospitals, or contributing to entrepreneur skill building workshops. SS charges a fee that covers volunteer's accommodation, food, and any associated costs of the volunteering activities. Any remaining amount is 100% reinvested to the children's center. Recurring expenses include rent, salaries to the teachers, children's meals, school equipment, and general maintenance. In only three years, the hard work and dedication of staff and volunteers has made a significant impact to the local community. The revenue generated by hosting volunteers is the main source of capital for the organization, and they rely on these funds to sustain their operations and continue providing services.

Founded in 2019, SS is a comparably young NGO. The original pricing strategy was focused on being the most affordable provider in order to attract volunteers and establish a brand. Existing expenses are well balanced and optimized. To increase revenue and support future growth, SS would like to re-evaluate the price they are charging volunteers.

Specialty Solutions needs an updated pricing strategy for their volunteer programs that will ensure a sustainable, scalable revenue stream. The pricing strategy will allow them to grow their services and expand their impacts while remaining competitive and providing a high quality volunteer experience.

## Pricing Strategies

Pricing strategies are influenced by external factors like consumer demand, competitor pricing, and overall market and economic trends. A pricing strategy can help nonprofits optimize their revenue stream so in order to budget, plan, and grow. A nonprofit pricing strategy should consider current spending and expenses, target profit margin, price elasticity of demand, and the buyer personas of their customers. The following four strategies, or a combination of components from each, would be reasonable options for an NGO.

### Competition based pricing

A competition-based pricing strategy uses the competitors' prices as a benchmark. However, consumers are primarily looking for the best value, which isn't always the same as the lowest price. Competitive pricing works especially well when the organization offers a higher quality experience for a comparable cost.

### Cost-Plus Pricing Strategy

A cost-plus pricing strategy is focused on the total expenses associated with providing a service. It's also referred to as markup pricing, where businesses who use this strategy 'markup' their products based on the amount of desired profit. This implementation would involve identifying a target margin and then adding that percentage to the total expenses to establish a price point.

### Dynamic Pricing Strategy

Dynamic pricing is also known as surge pricing, demand pricing, or time-based pricing. It's a flexible pricing strategy where prices fluctuate based on market and customer demand. Seasonally lowering prices to attract volunteers in the off-season would be one example of how this could be implemented.

### Bundle Pricing Strategy

A bundle pricing strategy is when two or more complementary products or services are packaged together and sold for a single price. Offering a safari experience or other sightseeing or attractions as add-ons to the volunteer program would be an opportunity to incorporate bundle pricing.

Choosing the best pricing strategy requires a combination of research, analysis, and knowledge of the industry and organization. With only three years in operations and limited personnel, detailed records of volunteer activity and price history were not available for this analysis. However, a list of NGO 'competitors' was provided, as well as detailed insights into the organization's values and goals.

## Competitor Analysis

Nine comparable volunteer packages were analyzed from five NGOs (Figure 1). All itineraries included food, shared accommodation, in-country transportation, and volunteer activities as part of the plan. No providers included the cost of visas or work permits except for SS. Eight of the plans were for volunteer opportunities within Tanzania, and one for placements in Kenya and Zambia. The prices for available trips varied from two to sixteen weeks, and currencies were converted to euros for the analysis. The most common length of stay for Specialty Solutions volunteers was reported as between two and eight weeks, therefore the analysis targeted trips of that length. Specialty Solutions' current pricing has been highlighted in red in Figure 1 for comparison. The raw data has been provided with this report for reference.

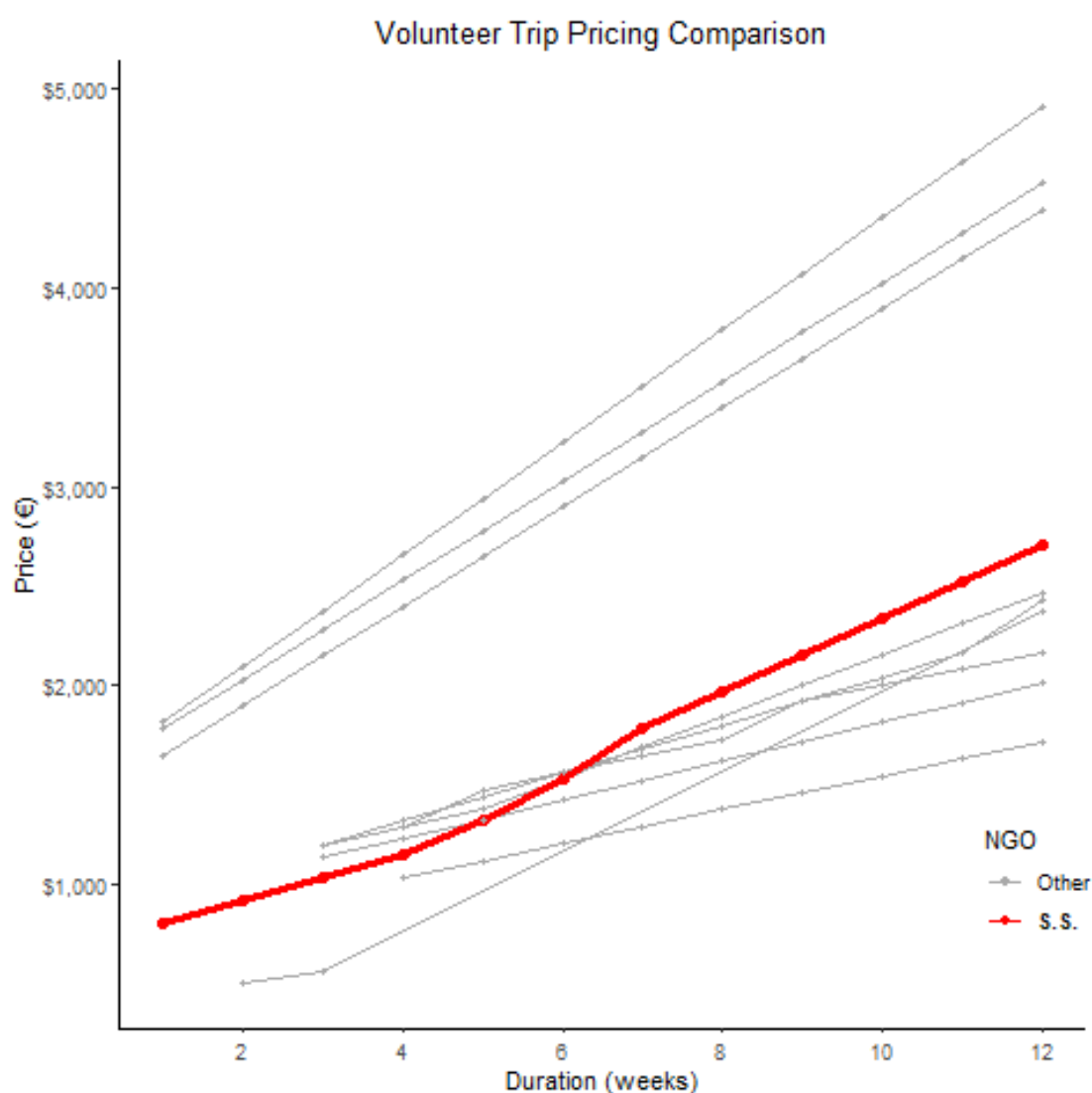


Figure 1 Pricing varied by more than \$1000 for packages of equal duration.

A boxplot showing the distribution of pricing across providers was created to visualize the data (Figure 2). Each rectangle represents the range that contains the middle 50% of offerings for that week. Black lines, or 'whiskers', show the extent of the top and bottom 25% (quartiles). Single points represent extreme outliers. Black bars show the median price for each week, where half the price points are greater than or equal to this value, and half are less. Specialty Solutions prices are plotted against the competitor price distribution, indicated by a red line. For stays of six weeks or less, SS is priced lower than at least 75% of its competitor's offerings.

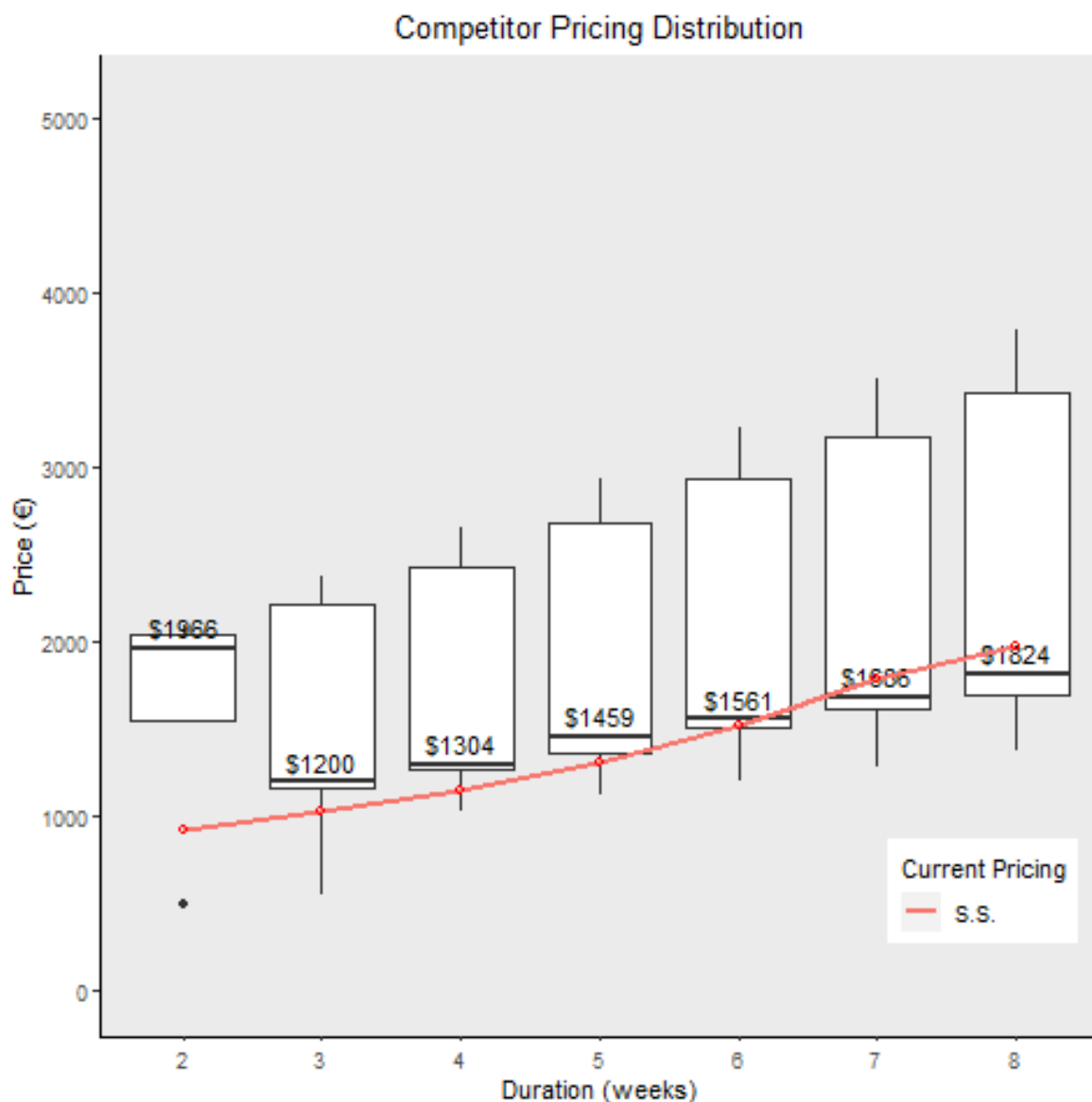


Figure 2 Specialty Solutions is consistently priced near or below the median of competitor prices.

Not many providers offered trips that were less than three weeks, resulting in a median price point for a two week trip that was skewed primarily toward one company's offerings. Those data points

were considered outliers and were removed from consideration. To find a more representative value for the two week price point, a linear regression model was built from the price data (Figure 3). The model can be used to predict trip pricing for any number of weeks.

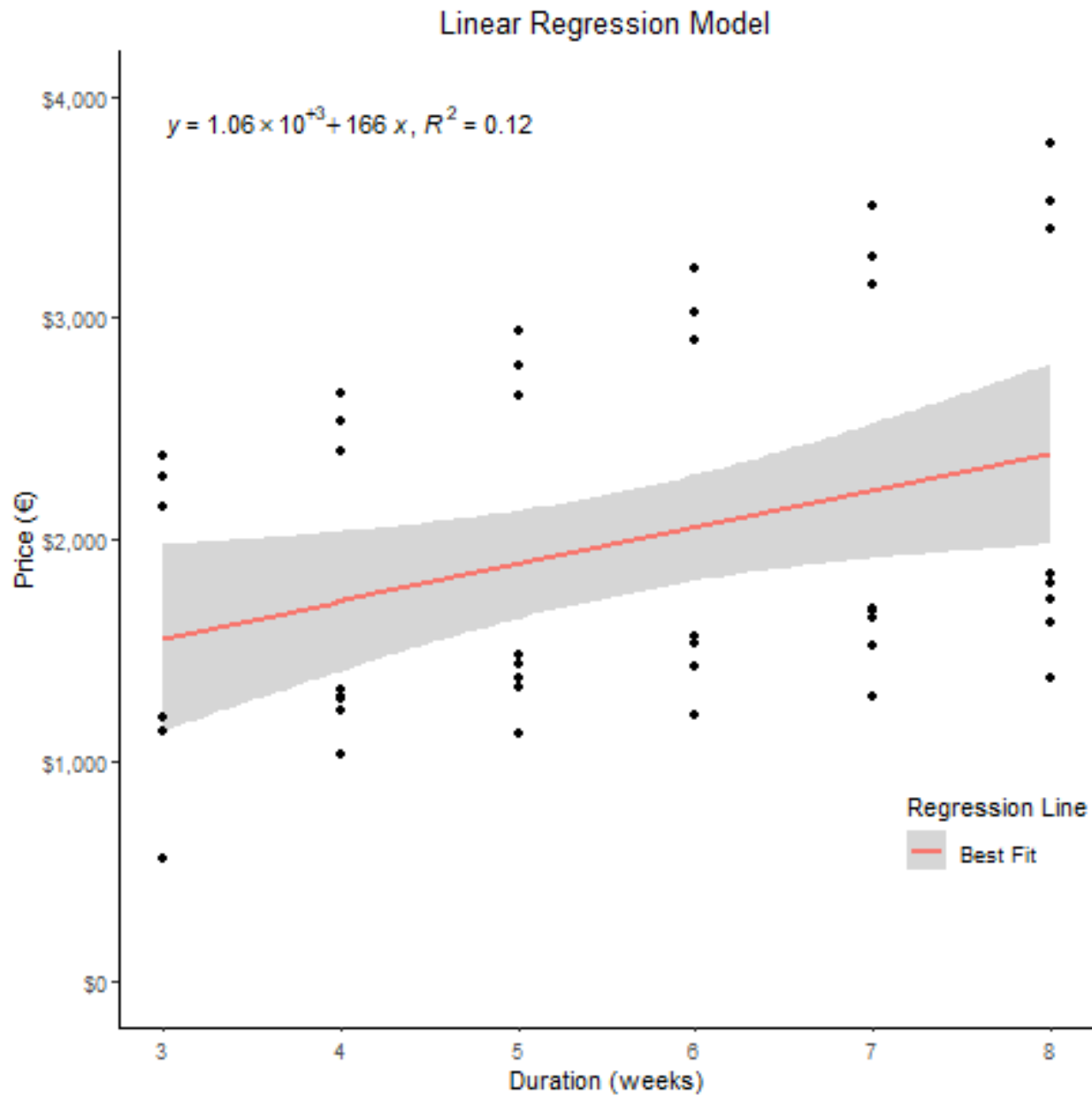


Figure 3 The pink line is the 'best fit' approximation of an equal distance between data points with a 95% confidence interval (shown in gray).

The model was created by using the ordinary least squares method to fit a line to the data so that it is as equally distanced from each point as possible. The equation for this line was then used to predict the target price for trips of durations from two to eight weeks and beyond.

## Recommendations

The best fit line from the regression analysis should be used to establish a target price. This line represents the average price being charged by other NGOs. Specialty Solutions current pricing is lower than this target (Figure 4), and prices can be raised and still be competitive.

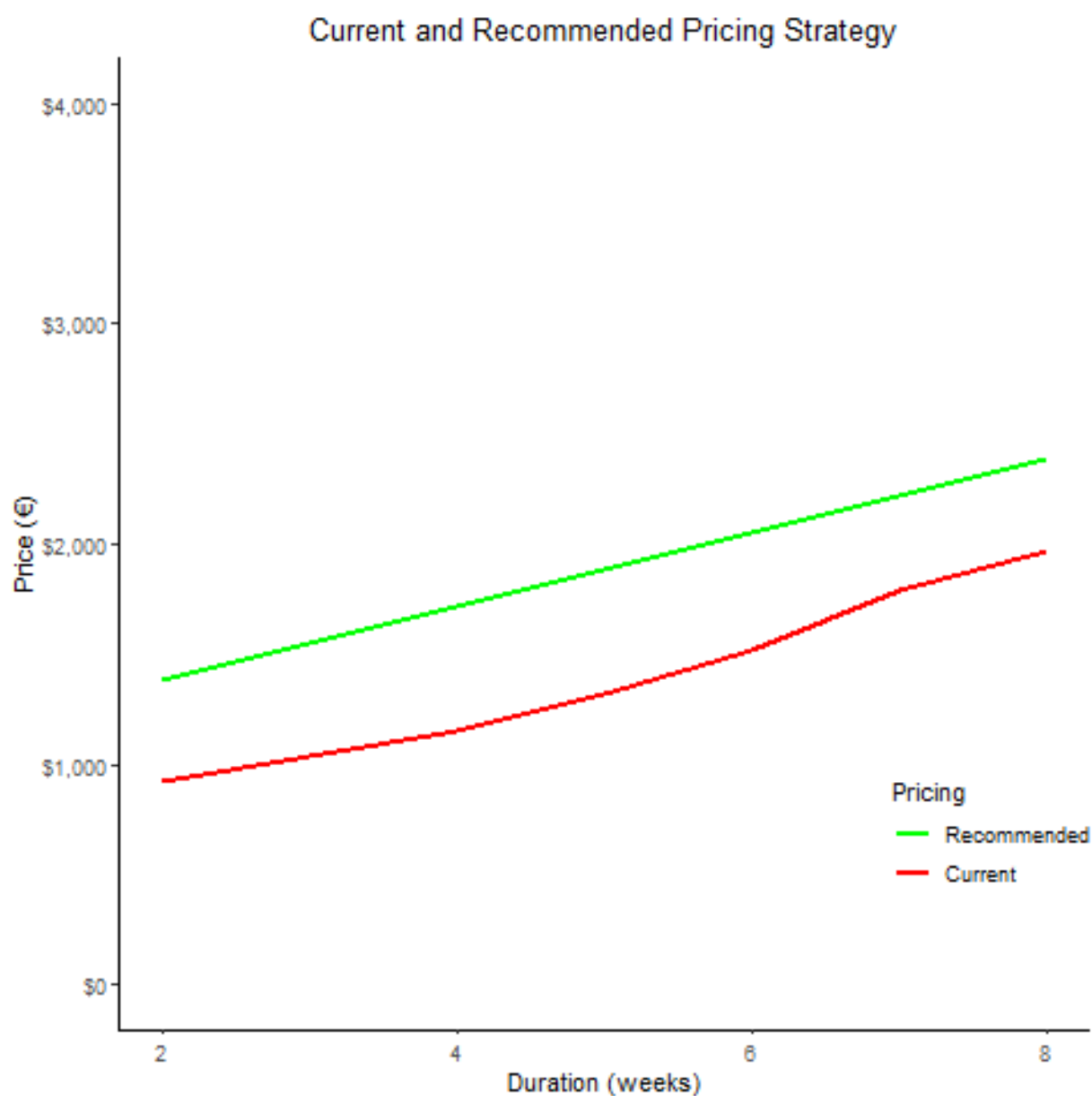


Figure 4 SS pricing is significantly lower than the recommended pricing established by the linear regression model.



Table 2 shows the current price, the recommended price, and the amount of the increase as both a dollar amount and a percent. Revenue will increase by \$400-\$600 per volunteer week using this model.

Weeks	Recommended Price	Current Price	Difference	Increase
2	\$1,388.96	\$922.47	\$466.49	34%
3	\$1,555.16	\$1,037.90	\$517.26	33%
4	\$1,721.37	\$1,153.33	\$568.04	33%
5	\$1,887.57	\$1,317.26	\$570.31	30%
6	\$2,053.77	\$1,524.84	\$528.93	26%
7	\$2,219.97	\$1,787.71	\$432.26	19%
8	\$2,386.18	\$1,972.01	\$414.17	17%

*Table 1 Recommended prices are 17% – 34% higher than current prices.*

## Discussion

It's possible that alternate pricing strategies, or a combination of the options presented, may also be valid options for SS. The recommendations presented herein are based on a small sample population that may not be representative of the entire population of competitors operating within the same space. Additionally, the value provided by SS as compared to other organizations is hard to assess/ quantify.

The recommended pricing structure no longer includes a discount for stays longer than four weeks. The rationale is based on competitor pricing. Competitor data doesn't show any price breaks for longer stays, and in fact, more than half get more expensive as trip length increases. Also, the recommended prices do not include the cost of work visas, based on what is being offered by other NGOs. The SS data used for the analysis was obtained from the existing pricing tool. A new pricing tool has been created for use with the proposed plan and has been provided with this report.

The pricing strategy should be re-evaluated annually. This will allow for adjustments due to market conditions, inflation, etc. Included with the new pricing tool is a volunteer tracking spreadsheet. It would be beneficial for future analysis if records were kept regarding volunteer participation and pricing. For example, if SS wanted to investigate whether a change in prices had resulted in an impact to demand, the volunteer data could be used for that analysis. A volunteer feedback form or short survey could also be incorporated as a way to measure the overall value of the experience being provided, and track any trends over time.

## Conclusion

The pricing strategy presented herein was based on a small sample population of NGOs that provide similar services in Tanzania and neighboring countries. A linear regression model established a baseline of competitor prices, which was then used to determine the recommended pricing. The proposed pricing structure is higher than what Specialty Solutions has previously charged, but still within the middle 50% of NGO prices. Adopting this pricing strategy will increase revenue and allow the organization to expand their impact and continue providing valuable services to the community.

## References

- Long, J. D., & Teetor, P. (2019). *R cookbook: Proven recipes for Data Analysis, statistics, and graphics*. O'Reilly.
- Richard, P. W. (2019). *Pricing analytics: Models and advanced quantitative techniques for product pricing*. Routledge.