Task 3

Surge

OVERVIEW

In some markets we have dynamic pricing. The price changes based on a number of parameters connected to our supply, demand and external factors.

QUESTIONS

1. What are pros and cons of dynamic pricing implementation?
2. What KPIs would you recommend that we track and report to gauge if this feature is a success for our company and how should we capture the data needed to provide accurate measures?
3. How can we define a configuration for dynamic pricing on a market ?

PROPOSALS

Dynamic Pricing Implementation.

First, let's define Dynamic Pricing: put simply, it is a strategy where enterprises set flexible prices based on changing market trends and conditions. For instance, Free Now might decide to charge a higher Fare during a time of increasing demand. Conversely, Free Now might choose to lower its Fares during low-demand periods.

- The latter idea sounds counterintuitive to what the concept of DP usually holds for regular conversations regarding "Surge of Prices at High-Demand Timeframes", however, the first and most important thing to consider as a Pro for Dynamic Pricing is the fact that this practice can indeed mean to lower Fares at certain times, certain locations, and even for certain types of Passengers, thus maximizing the amount of Requests that will become Completed Rides in every Zone of the Markets Free Now covers.
- Moreover, operating in a competitive Market means that, based on the Value Proposition of the enterprise, Fares can be automatically updated to face the rest of the Players in question. Similarly to the first example, Free Now can decide to never charge a higher fare than a certain competitor, no matter the situation, thus Dynamic Pricing will ensure all

of the first point's cases are covered and the ultimate Fare does not leave Free now as the expensive App of choice.

On the other hand, Dynamic Pricing can deter further interactions between Passengers and Drivers all together. A clear example of this is the case of excessively focusing a Pricing Team into reacting to broad variables such as the percentage of Requests that were not accepted by any Driver in a given timeframe; although considering this variable is not wrong, ultra focus may lead to Passenger alienation when they detect **no limits in Surge percentage**s Week over Week at almost the same time frames.

KPIs to Track / Configuring Dynamic Pricing on a Market.

Automated tracking of internal variables such as Non Acceptance Ratio (the percentage of Requests that were not accepted by any Driver in a given timeframe), and external variables such as Competitors' Fares and their Surge percentages can lead to a very good reactive model for Dynamic Pricing based on three major variables.

- Nevertheless, fun comes through granulating the Market into examination of how NA works in every Zone, knowing what the average NA is for each one, and then designing Clusters that account for the same behaviors, thus letting Pricing Teams react accordingly when the average threshold, for let's say Cluster 5, is surpassed.
- Moreover, by individually studying Demand's elasticity by Zone, certain Surge percentage limits can be defined, adding robustness to the above methodology.
- Subsequently, automated tracking of Competitors' Fare variables such as Minimum Fare, Base Fare, Charge by Km, Charge by Min, Booking Fee, and Commission will eventually lead to interesting findings with respect to how certain Areas of the Market are divided and who is fighting over them, at which time of the Day / Week these variables morph into different Fares and what would Free Now's stance will be in terms of reacting to the competition, or proactively lead them into re-morphing their strategies based on our knowledge of their current modus operandi.

CONCLUSIONS

Certainly, there are a lot of different ways to tackle Dynamic Pricing, but the prevailing idea will always be to lock the edge by being the competitor with the most information at all times. Teams can embark into truly modulate Weather Forecasting even, though prioritization is also adamant in an Industry as fast and relentless as the Ride Hailing one, that is a critical point for proposing to track a manageable set of internal variables while learning from our competitors' Pricing Strategies within the realms of Public Domain information. It may look like a simple endeavor, but

Experimentation Sets based on this Model have already paid dividends for certain Markets inside the same Industry.