

Pricing Strategies For Optimizing Videotex Revenues

So far, we've seen that many consumers want to buy more than one videotex pay service, yet there's no combination of services appealing to a large segment of the market. Offering only a fixed bundle of services therefore results in greatly reduced revenue potential.

The research suggests revenues will be increased by offering consumers a number of services to choose from, and allowing them the freedom to pick the exact combination of services they prefer.

But what's the optimal price to charge for services?

The Magic Price For Combinations Of Services

Let's recall the number of people willing to buy any combination that includes at least banking at home plus any one of the news services.

As we saw earlier in Figure 8, the combination of banking at home bought in conjunction with a news service is chosen by 49% of the market when it's offered for free. But only 26% purchase when this combination costs \$7-8 (\$7 if the news service has intrusive ads, or \$8 if the news has no ads.) At \$14-16, only 19% want it. Only 17% buy when it's \$21-24. And at \$28-32, a mere 12% purchase.

These figures suggest that a company launching a videotex banking and news service at \$28-32 a month may encounter difficulty in penetrating more than 12% of the market.

Would it do better to lower the price? Yes! At \$21-\$24 a month, more people buy, resulting in greater revenues (number of people times the amount they'll pay) than obtained at the higher \$28-32 price. Lowering the price to \$14-16, however, hardly increases demand at all. Only 19% buy, compared to 17% at the \$21-24 price. Dropping the price even further to \$7-8 raises demand to only 26%, resulting in even less revenue.

Therefore, it's clear that maximum revenue for a banking and news combination is reached by charging the \$21-24 fee, rather than \$28-32 or \$14-16. This holds true for most other combinations of services.

To the consumer, videotex seems to be worth about \$24 a month. Thus, people will buy two \$12 services totaling \$24. But they shy away from two \$16 services for \$32.