Use case: better price setting for a specialty hops company

Case:

A.B.C. Hops (a fictional company) sells specialty hops to cottage and craft breweries nationwide. They are seeking to expand their business, and want to know if changing their prices could increase gross profit.

Approach without King Street Economics:

A.B.C. Hops looks at historical data on discounts. They see they sold more volume on weeks where a discount was offered than days where one wasn't. They choose to reduce prices by 10%. Over the next year, there's no increase in gross profit.

Problems with this approach:

- This approach can't say what would have happened in the absence of the discount. Past discounts may coincide with demand-increasing events. If so, increased order numbers during discount periods may not actually reflect new customers.
- This approach can't estimate the optimal amount to change prices
- This approach places excess demands on decision makers to perform analysis, and detracts their focus from actually running the firm

How King Street Economics could help this firm:

- Use advanced statistical techniques to estimate the **price elasticity of demand**–or, how much consumers respond to price changes
- Use the estimated price elasticity of demand to calculate the optimal amount to change prices
- Evaluate the opportunity for personalized pricing beyond an "across the board" price change
- Estimate the total impact on yearly gross profit margin
- Present results in a clear, easy to digest report with an accompanying slide deck to help executives make an informed decision

Want to find ways you might be leaving money on the table?

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