KING STREET ECONOMICS

Use case: Personalized discounts for an online wine retailer

Case:

Old Dominion Wines (a fictitious company), operates a monthly wine subscription service, with more bottles available on their website to members. They occasionally run promotions, which are sent out via email. They want to know if they can target these promotions to increase sales.

Approach without King Street Economics:

Old Dominion Wines identifies a subset of people who purchased after receiving a promotion, and sends more promotions to them. The number of bottles sold remains flat.

Problems with this approach:

- People who purchase at higher rates after receiving a promotion, may already by more likely to purchase
- All customers would prefer to pay less, even if those customers would be willing to pay more
- The recipients of the new promotions may be making purchases they would have made regardless of price, and simply paying less
- This approach places excess demands on decision makers to perform analysis, detracts their focus from actually running the firm, and increases the risk faced by the firm

How King Street Economics could help this firm:

- Use advanced statistical techniques to identify which customers have **elastic demand**–i.e. who would be more likely to purchase wine if the price were reduced
- Use advanced statistical techniques to identify which customers have **inelastic demand**–i.e. who would purchase wine even if the price were raised
- Translate the results into a recommendation of who should be sent a discount
- Evaluate whether the baseline price (which inelastic consumers see) can be raised
- Present results in a clear, easy to digest report with an accompanying slide deck to help executives make an informed decision

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