

Use case: Pricing experiments for a small cafe chain

Case:

A local chain of coffee shops wants to test whether charging an additional \$2/cup “surge price” during the day, when many customers may be remote-working, will increase revenue. They decide to run an experiment, to see how this impacts coffee sales.

Approach without King Street Economics:

The chain chooses one location to run their test. They compare the average sales at the test location to that location’s average sales from the week before. They find that the test location gets less foot traffic per day, but the revenue is roughly constant. They conclude that the intervention had no business effect and move on.

Problems with this approach:

- Every location is different. Picking one test location may not give the chain good information on how the surge price will affect other locations.
- This approach ignores week-to-week effects. If foot traffic dropped in this location due to non-price factors (weather, holiday travel), but surge pricing kept revenue flat despite this drop, then surge pricing works. The chain would be leaving money on the table by not then implementing it
- Middle and upper management are busy making the business actually run, and it isn’t cost effective for them to take time to clean and analyze experiment data

How King Street Economics could help this firm:

- Pick the **right test group** of locations to test a rollout of surge pricing—so that the chain can learn how it will affect all locations
- Pick an appropriate **comparison group** of locations to serve as a baseline
- Analyze the post-experiment data to recover the actual effect of the surge pricing rollout on revenue, based on our improved experimental design
- Calculate an estimate of the effect rolling surge pricing out at all locations would have on chain revenue per quarter
- Present results in a clear, easy to digest report with an accompanying slide deck

Want to run an experiment like this?

Email contact@kingstreeteconomics.com to schedule a free consultation.