POINT OF VIEW

LTIMindtree

Price It Right:
How Dynamic Pricing Revolutionizes Streaming Services

Future, faster. Together.

Introduction

During the past few years people have largely shifted from traditional mode of content consumption to online streaming. This provides a new opportunity for content creators and owners to reach out to a new audience base by coming up with new strategies. As more viewers are choosing online streaming, OTT platforms have gained tremendous popularity in recent years due to the convenience and flexibility they offer to consumers. They allow users to access a wide range of content, including movies, TV shows and original programming, on-demand and often at a lower cost compared to traditional cable or satellite subscriptions.

As a result, OTT has revolutionized the media and entertainment industry with major players like Netflix, Amazon Prime Video, Hulu and Disney+ leading the way. These platforms have disrupted traditional broadcasting models and have become major content creators themselves. Additionally, many traditional media companies and broadcasters have also launched their own OTT services to adapt to changing consumer preferences.

> **Let's do some facts check, A staggering 85% of U.S. households have at least one video streaming subscription, and 60% have at least one paid music streaming subscription. The streaming industry is expected to be worth $330 billion by 2030. Netflix is the number one streaming service in the world, with more than 220 million subscribers.**

OTT or LIVE Streaming Platform pricing plays a significant role in business performance. Therefore, it is important to choose unique platform streaming characteristics that will help you set your broadcasting goals. Setting the overall price position against competitors is always a key challenge in the video-on-demand and LIVE streaming business. To compete in this market, streaming service provider need to find ways to maximize revenue. Pricing is the primary driver of revenue for streaming platforms. Effective pricing strategies ensure that the platform generates sufficient revenue to cover content acquisition costs, platform maintenance, technological advancements, and profitability. A well-designed pricing model can maximize revenue potential and contribute to the financial success of the streaming platform.
One way to do this is to use "Dynamic Pricing."

What is Dynamic Pricing?

Dynamic pricing is a pricing strategy that involves changing prices based on factors such as demand, time of day, customer behavior, availability, user behavior, or specific business objectives etc.

It can be a powerful tool for streaming services, as it can help to:

- Increase revenue during peak demand periods.

Reduce churn

- Target different customer segments.

Below picture shows the increase in the revenue gained at various points when dynamic pricing is implemented compared to static pricing.

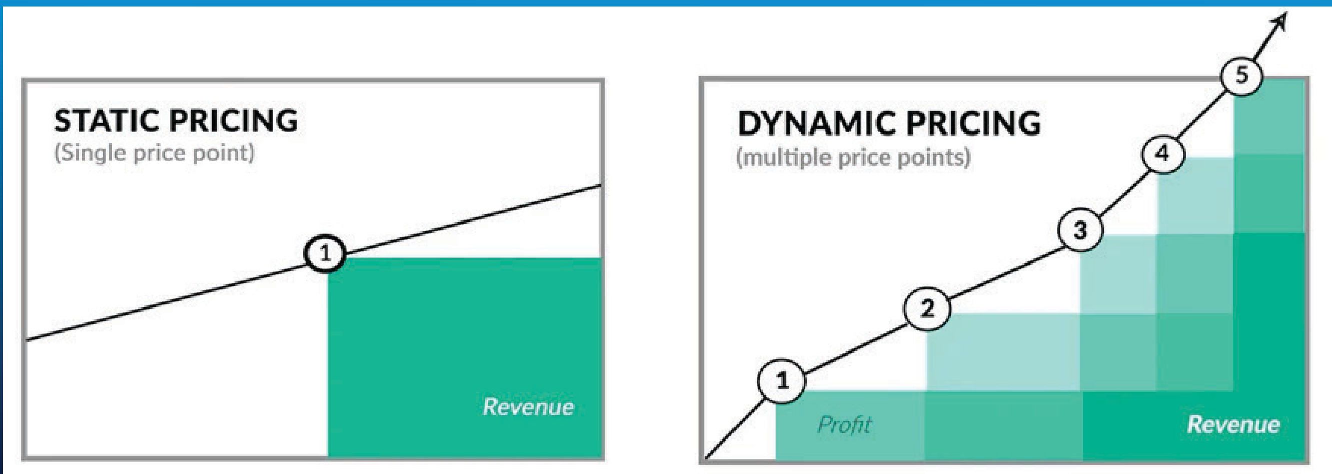


Image Source: Competitoor

Though dynamic pricing can be a complex and challenging strategy to implement, it can be a very effective in terms of increasing revenue and profitability for streaming service providers. It has the potential to revolutionize the way businesses approach pricing and revenue optimization. Streaming services such as Netflix and Spotify use dynamic pricing to offer personalized pricing plans based on user behavior and preferences. Infact, this is Netflix's secret weapon to increase their subscribers

Benefits of Dynamic Pricinge

Benefits to Service Provider:

1. Increased revenue

Dynamic pricing can help streaming services to increase revenue by charging different prices to different customers based on their willingness to pay. For example, a streaming service might charge more for a subscription during times when demand is high, such as the holiday season.

2. Reduced churn

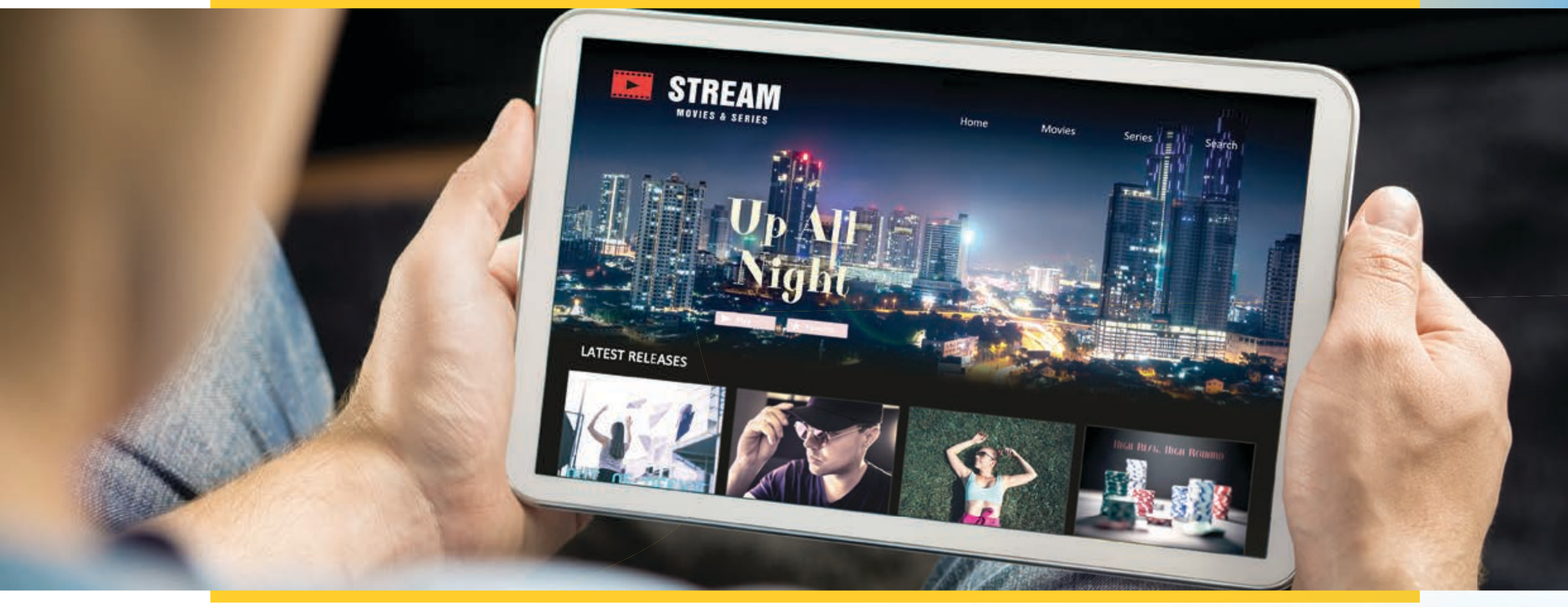
Dynamic pricing can help streaming services to reduce churn by offering discounts to customers who commit to a longer subscription period. For example, a streaming service might offer a 3-month free trial to new customers who sign up for a one-year subscription.

3. Increased market share

Dynamic pricing can help streaming services to increase market share by targeting different customer segments with different prices. For example, a streaming service might offer a lower price to students or to customers who are willing to watch ads.

4. Maximizing content value:

Different content has varying levels of popularity and demand. Dynamic pricing allows streaming platforms to adjust prices based on content value and exclusivity. Highly anticipated or exclusive content can be priced higher to capture the added value it offers. Conversely, older or less popular content can be priced lower to encourage viewership and engagement.



Benefits to Customer:

1. Cost optimization

Dynamic pricing allows customers to optimize their streaming expenses based on their individual preferences and consumption patterns. By adjusting prices based on demand and availability, customers can choose the pricing tier that best suits their budget and viewing habits. This ensures that customers pay for the services they actually use, resulting in potential cost savings.

2. Flexibility and scalability

With dynamic pricing, customers have the flexibility to upgrade or downgrade their subscriptions based on their changing needs. For instance, during a busy period, customers may choose to upgrade to a higher tier to access additional content or features. Conversely, during quieter periods, they can easily downgrade to a more basic package to save money. This scalability allows customers to align their streaming services with their evolving preferences and requirements.

3. Promotions and discounts

Streaming platforms often leverage dynamic pricing to introduce promotional offers and discounts to attract and retain customers. By adjusting prices based on factors like holidays, special events, or seasonal trends, customers can take advantage of reduced pricing or exclusive deals, enhancing the overall value they receive from the streaming service.

4. Enhanced personalization

Dynamic pricing can also be utilized to deliver personalized recommendations and content offerings to customers. By analyzing customers' viewing history, preferences, and behavior, streaming platforms can tailor pricing options that align with their specific interests. This personalized approach ensures that customers are more likely to discover and enjoy content that appeals to their individual tastes.

Challenges of Dynamic Pricing

1. **Pricing complexity**

   Implementing dynamic pricing requires careful consideration of multiple factors such as demand, availability, customer behavior, and market trends. Managing pricing algorithms and ensuring they accurately reflect these variables can be complex, requiring robust data analysis and modeling capabilities.

2. **Risk**

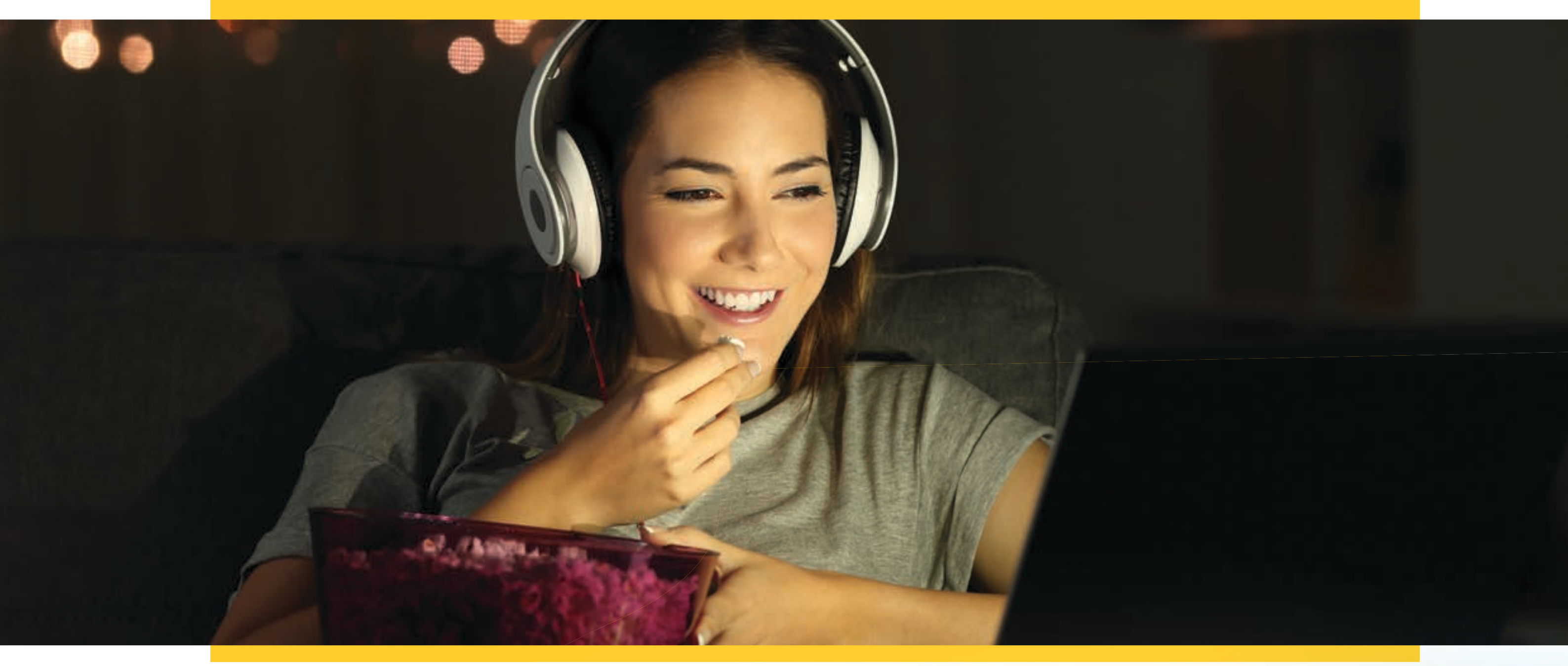
   Dynamic pricing can be a risky strategy. If prices are set too high, customers may not be interested and cancel their subscriptions. If prices are set too low, the streaming service provider may lose revenue.

3. **Compliance**

   Dynamic pricing can be complex from a compliance perspective. Streaming services need to ensure that their pricing policies are fair and transparent, and that they comply with all applicable laws and regulations.

4. **Technical infrastructure and pricing execution**

   Implementing dynamic pricing requires a robust technical infrastructure capable of handling real-time data processing, pricing calculations, and seamless updates across various platforms and devices. Maintaining pricing accuracy, managing pricing changes across different subscription tiers, and ensuring a smooth user experience can pose technical challenges.



How to Choose the Right Dynamic Pricing Strategy?

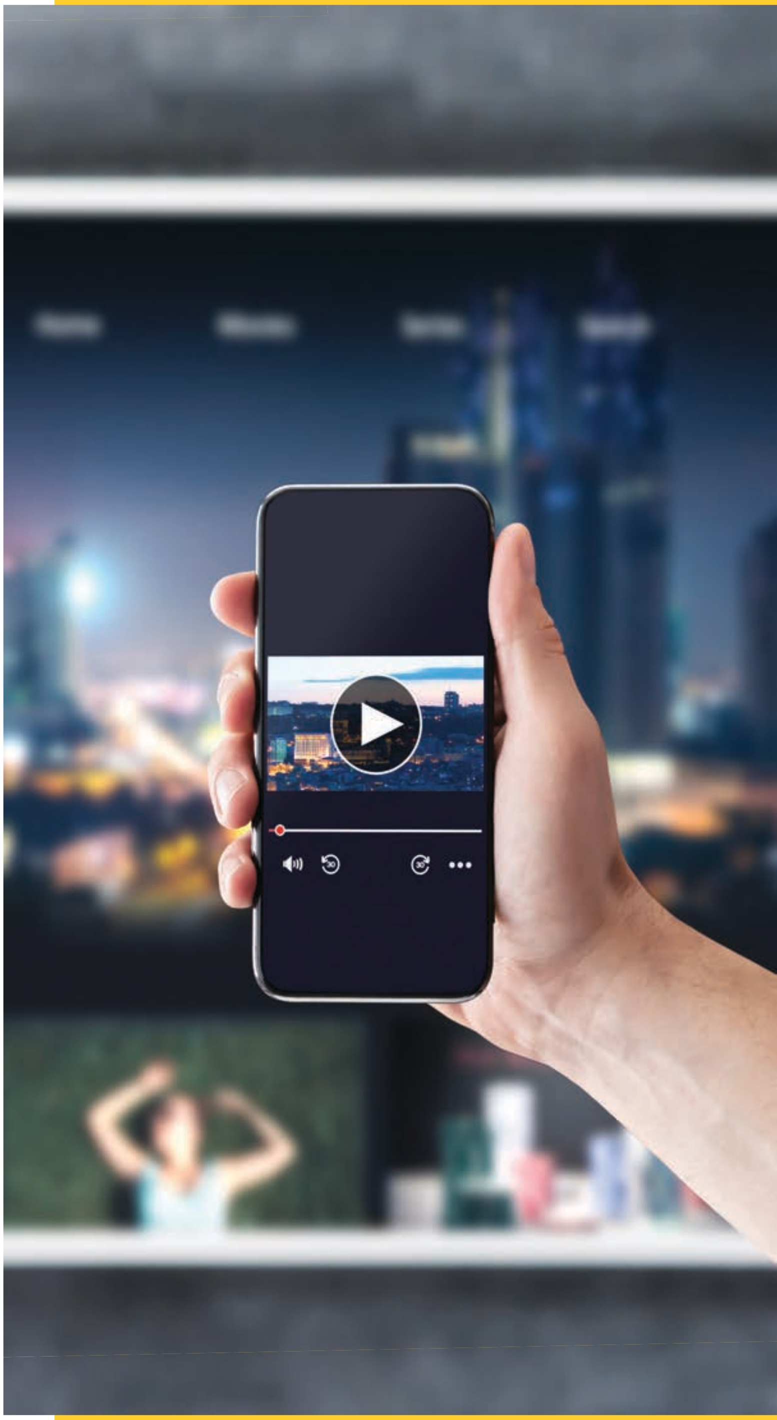
There is no one-size-fits-all approach to dynamic pricing. The right strategy for a streaming service will depend on several factors, including the type of content offered, the target market, and the competitive landscape.

Some of the factors to consider when choosing a dynamic pricing strategy include:

Type of content offered: Some types of content, such as live sports, are more in demand than others. Streaming services can use this to their advantage by charging higher prices for more in-demand content.

Target Market: Customers can be targeted based on different factors like age, platform, genre, language, preferences, etc., for which they are ready to pay a slightly higher price to view the content. Streaming services can use this to their advantage by targeting different customer segments with different prices.

Competitive landscape: Streaming services need to be aware of the pricing strategies of their Competitors need to ensure that their prices are competitive, but they also need to avoid pricing themselves out of the market.



Types of Dynamic Pricing

There are several methods of dynamic pricing. Some of the most common methods include:

1. Time-based pricing:

Time-based pricing involves varying the price of a streaming service based on the time of day or week. Streaming platforms may offer lower prices during off-peak hours or on specific days to incentivize customers to use the service during those times. This strategy helps distribute traffic and optimize server load, benefiting both the platform and customers.

For example, a streaming platform offers discounted pricing for subscriptions during off-peak hours, such as late at night or weekdays. By encouraging users to stream content during less busy times, the platform can optimize server load and provide cost savings to customers who are flexible with their viewing schedules

2. Surge pricing:

Surge pricing, also known as peak pricing, involves increasing the price of a streaming service during periods of high demand or popular events. This ensures that customers who are willing to pay a premium can access the content during peak times.

For Example, during a popular live sports event, a streaming platform increases the price of accessing the live stream for a limited period. This surge pricing allows the platform to capitalize on the high demand for the event and generate additional revenue.

3. Personalized pricing:

Personalized pricing involves tailoring the price of a streaming service based on individualuser data and behavior.
By analyzing factors such as viewing history, preferences, or engagement patterns, streaming platforms can offer custom pricing options to each customer. This strategy aims to provide personalized offers that are more likely to resonate with customers and increase their satisfaction. For example, if a user primarily watches a specific genre or content category, the platform might offer a targeted subscription plan focused on that genre at a discounted price.

4. Promotional pricing:

Promotional pricing involves offering temporary discounts or promotional offers to attract new customers or retain existing ones. Streaming platforms may provide discounted subscription rates for a limited time, offer free trials, or bundle services at a reduced price. These promotions are often tied to specific events, holidays, or targeted marketing campaigns.

For example, A streaming platform offers a limited-time promotion where new customers can sign up for a free one-month trial of their service. This promotional pricing allows potential subscribers to experience the platform's content and features before committing to a paid subscription.

How to Implement Dynamic Pricing Strategy?

When exploring dynamic pricing, start by determining if this model works best for you.

These four steps will help you make the right decision.

1. **Determine your commercial objective:**

   Identifying your commercial objective is the first step in implementing a successful dynamic pricing strategy. In order to identify a commercial objective, we need to consider the below questions:

   - **Why do we exist as a company?**
   - **What are our customers' expectations?**
   - **Do we want an increased volume of sales versus overall profit?**
   - **What is our current pricing model?**
   - **What are the perks and drawbacks of our current model?**

2. **Choose a pricing strategy:**

   Once you identify your commercial objective, you can find a pricing strategy that complements your goals. For instance, if your goal is to increase the quantity of products you sell, increasing prices during the holiday season may lead to decrease revenue. In this case, static pricing may be the best fit.

3. **Establish your pricing rules:**

   While the prices of your products may change, the rules you use to set prices should stay consistent. For instance, if an e-commerce store is going out of stock, it can set a rule to follow the lowest price range of some competitors when the stock reaches a certain number.

4. **Find the right tools to implement your strategy:**

   There are lots of dynamic pricing tools in the market that can help you enact your new strategy. To implement dynamic pricing, businesses need to find right tools or vendor that provides those. LTIMindtree can help businesses adjust their prices based on demand and maximize their revenue by implementing the best dynamic pricing strategies.

Conclusion

Dynamic pricing has become more sophisticated with the help of advanced technologies like machine learning and big data analytics. It will become even more prevalent and sophisticated. It is a delicate practice that only works in certain circumstances, and its crucial to strike the right balance between maximizing revenue and keeping customers happy. It offers immense potential for Streaming businesses to optimize their pricing strategies, maximize revenue, and adapt to ever-changing market dynamics. This has resulted in improved accuracy and reliability of market data, allowing streaming platforms to make more informed pricing decisions in real-time. Machine learning algorithms, artificial intelligence, and real-time data analytics will further enhance the accuracy and effectiveness of dynamic pricing strategies. By If you choose to embrace ing dynamic pricing, LTIMindtree would be glad to help you to implement it thoughtfully and ethically. With our dynamic pricing solutions, , businesses can gain a competitive edge and drive sustainable growth in today's dynamic marketplace.

Author

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Bhagya Kumari Killi, is an experienced Consultant specializing in the streaming industry with a proven track record of helping streaming platforms and guiding customers to achieve their business objectives. She has worked with prominent streaming platforms and excels in conducting thorough assessment of clients existing streaming infrastructure, identifying areas for improvement, and developing customized solutions.

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We have over a decade of expertise in dynamic streaming services.

Together we can create unforgettable moments, create lasting connections, and deliver exceptional experiences. To know more about our offerings, write to us at **M&E Consulting**

Communications, Media, and Entertainment at LTIMindtree

In this industry segment, we work with the world's leading Broadcasters, Studios, OTT/Streaming, Publishers, Information Services, Education, Music, Gaming, AdTech, Telcos, and Multiple-system Operators. We are seeing rapid pace of change in this industry as an opportunity to deliver on our core mission – "Future Faster, Together". The Communications industry is striving to launch new product concepts to monetize their investment on 5G platforms. We are collaborating with them to expedite new product launches that can transform operations for their customers. The Media & Entertainment industry is trying to monetize their investment on streaming platforms and optimize their cost structures. We are enabling them with product innovation to drive new revenue streams, modernize content supply chains, and personalize viewer/audience experiences. LTIMindtree's 4C (Content, Consumer, Compliance & Commerce) framework coupled with its digital innovation platform, "Mediacube," is helping our clients in this segment with their transformation initiatives.

To learn more about our Media & Entertainment service please visit,
https://www.ltimindtree.com/industries/communications-media-and-entertainment/

About LTIMindtree

LTIMindtree is a global technology consulting and digital solutions company that enables enterprises across industries to reimagine business models, accelerate innovation, and maximize growth by harnessing digital technologies. As a digital transformation partner to more than 700 clients, LTIMindtree brings extensive domain and technology expertise to help drive superior competitive differentiation, customer experiences, and business outcomes in a converging world. Powered by 82,000+ talented and entrepreneurial professionals across more than 30 countries, LTIMindtree — a Larsen & Toubro Group company — combines the industry-acclaimed strengths of erstwhile Larsen and Toubro Infotech and Mindtree in solving the most complex business challenges and delivering transformation at scale. For more information, please visit **https://www.ltimindtree.com/**