

MKTG 4820- Pricing Strategy

Fall Semester, 2008

Group Project Task #2 – Proposed Research Questions and Methodologies

SNOW EXPRESS

Executive Summary

Our product being offered is the Snow Express. This is a high speed light rail system serving from Golden, Colorado to the destinations of Dillon, Frisco, Breckenridge, Keystone and Vail. The Snow Express offers the value of safety, reliability, speed and ease for your travel to Summit and Eagle County. The Snow Express offers better value over the value of the RTD system, private bus and shuttle systems as well as personally driving during unpredictable winter months. The Snow Express will be priced with one way, roundtrip and unlimited seasonal tickets. The Snow Express's best pricing promotion will be offered in combination with the ColoradoPass and EpicPass in the form of a price discount for a Winter Unlimited season pass. The Snow Express will be priced neutrally when entering the market. The Snow Express will follow a similar price format as the RTD system of Denver, but also with our own unique additions and changes to the pricing format to make it our own and the most appealing to our costumers.

Value Segmentation and Product Line

Our major competitors include the RTD bus system, private buses, shuttles, and personal car drivers. The RTD bus allow students to take the bus for free with a student bus pass, but only goes as far as El Dora, which is not the ideal mountain for students to go snowboarding. RTD has a price advantage over the Snow Express since it is free, but having the convenience of going to any of the 5 mountains the Snow Express serves is as definite advantage over the RTD system. Since the RTD buses are free, this will be more attractive to price sensitive customers who are just looking for a cheap way to get to any mountain.

Another competitor is the Ski Train; this serves customers to from Denver to Winter Park. This option is more expensive than the Snow Express and does not offer the convenience of going to any of the 5 mountains offered by the Snow Express, but instead takes you specifically to Winter Park. Taking the Ski Train will be ideal for consumers who are more price-insensitive and who want to specifically go to Winter Park from the Denver area. The Ski Train is also a slower option, it is a train and does not offer the environmental and speed benefits of the Snow Express.

A third competitor to the Snow Express is students personally driving their own cars up to these mountains. Personal drivers will be heavy competition because of the convenience of traveling at any time they want, although gas is rather expensive which could make this an unattractive option to the Snow Express. The Snow Express is faster and also a safer option to unknown road conditions and heavy traffic, it also relieves the stress of driving while allowing the riders to rest rather than focus on driving.

Our last major competitors are private buses and shuttles which currently dominate the market we are trying to enter. These modes of transportation are not too expensive as long as you are not traveling a very far distance. A problem with shuttles is that they have limited space so a big group of friends would not be able to go together up to the mountains. The Snow Express is also a safer and greener option than these bus systems, it avoids the unreliability of weather and road conditions as well as lower emissions than busses. These competitors are attractive to consumers who are looking for a convenient way to go anywhere they want while not being very sensitive to the price. The convenience, safety, predictability, reliability and comfortability of the Snow Express is our biggest advantage for this customer segment to switch to the Snow Express over private bus and shuttles.

The Snow Express will cater to all of the consumers above but at a lower price while still providing a convenient service. Our service will provide consumers with a ride from Golden to Frisco, Dillon, Breckenridge and Vail. Since the Snow Express is less expensive and more reliable than most of our competition, we feel we will be able to gain a great deal of the market while still providing the most convenient mode of transportation.

Price Customization and Promotion

The price breakdown structure for the Snow Express is as follows:

One Way Ticket Price:

- ✚ Frisco/Dillon..... \$10.00
- ✚ Breckenridge.....\$12.00
- ✚ Keystone.....\$12.00
- ✚ Vail.....\$14.00

Round Trip Ticket Price:

- ✦ Frisco/Dillon.....\$13.00
- ✦ Breckenridge.....\$16.00
- ✦ Keystone.....\$16.00
- ✦ Vail.....\$18.00

An unlimited day ticket that would run between the four stops of Frisco, Dillon, Breckenridge, Vail, and Keystone would be priced at \$6.00.

Season Pass and Discounted Rates:

- ✦ Season Unlimited Winter Pass (November thru April).....\$250.00
- ✦ Season Unlimited Summer Pass (March thru October).....\$150.00
- ✦ Student/Military/Senior Citizen Pass Winter.....\$200.00
- ✦ Student/Military/Senior Citizen Pass Summer.....\$95.00
- ✦ Add a Winter Unlimited Pass to any ColoradoPass or EpicPass.....\$180.00
- ✦ Eagle County and Summit County Residents Winter Unlimited.....\$190.00
- ✦ Eagle County and Summit County Residents Summer Unlimited.....\$90.00

Tickets for the Snow Express would be available for purchase at kiosks at any Snow Express station as well as online and where life tickets are sold. Tickets for the Snow Express would be checked upon boarding your destination bound train.

For the price sensitive consumers in our pricing structure we have added the option of adding a Winter Season Unlimited pass discount rate of \$180.00 if you were to purchase this pass along with any ColoradoPass. The ColoradoPass is offered by Vail Resorts for \$499.00 a season, this pass includes full access to the mountains of Keystone, Breckenridge, ABasin, and allows skiers to have ten days at Vail and Beaver Creek, and the EpicPass is an extension of the ColoradoPass by including unlimited access to Vail and Beaver Creek Mountains. The Winter Unlimited pass would be offered to these ColoradoPass and EpicPass holders at this discounted rate when purchased together or when added on. It would add convenience to the pass holders because it would combine the ColoradoPass or EpicPass with Unlimited Winter access all with one physical card. We believe that users will see a large benefit of adding a Snow Express

season pass to the ski and snowboard pass; we believe this bundling technique will reach people that love the capabilities of our offering and appreciate the combination offered at the discounted rate.

Also for price sensitive customers the Unlimited Season Winter and Summer pass is offered at a discounted rate of \$200.00 (winter) and \$95.00 (Summer) for students, military and senior citizens. This is usually a very price sensitive group, students tend to have lower incomes if any, and senior citizens are usually classified as frugal shoppers. Offering the discount to the military is the Snow Express way of saying Thank You and staying in good political eyes.

The Summer Unlimited pass is offered at a deeply discounted rate compared to winter, \$150.00 compared to \$250.00. We would like to offer this price so low to get people who fear the high cost of a Winter Unlimited pass to appreciate the product we are offering and hopefully when they are to realize the benefits, they see the value of the Winter Unlimited. This is also offered at a discounted rate due to the fact there are a more limited and less frequent number of trains running in the summer.

The Snow Express would also like to offer a Surprise Discount Day. One day every other week, posted randomly on the website will be a deep discount day to one of the locations. The discount would read, "\$6.00 round trip to Keystone! Today only, print this page at home for your discounted rate." This promotion would allow high price sensitive customers to use the product and keep their attention. It would keep users attention by the constant checking of the website. It would also not affect the price insensitive customers because the discount would only be valid if you went out of your way to check the website frequently to find the discount and then had the print out the coupon.

For the price insensitive customer we offer the one way rate, and round trip rates. The one way rate is the highest rate we offer this is for the price insensitive customer who are more spur of the moment and don't care to plan. The round trip price is also for the price insensitive, customer would buy this because they see this as only a few more dollars then round trip they figure they might or might not use the round way back.

Also the winter unlimited pass is \$250.00, about 15 round trips back and fourth. This is the price for the insensitive; they take the first offer on the table. The Winter Unlimited is also for the price insensitive who see the Snow Express as a recreational option for easy access to Summit and Eagle County as an addition resource for them to use. This is also an option for

consumers who appreciate the Green aspect of transportation, since the Snow Express is a high speed light rail system which has lower emission than automobiles on the road. These Green consumers would appreciate any price offered because of their commitment to the environment, there for being price insensitive due to their environmental appreciation.

Price Level

We will be using a neutral price level because of our fixed costs and the purchase frequency of our product. Our fixed costs will consist of the actual trains and tracks with our variable costs being the fuel and electricity to run the trains to and from the destinations. Our product will be purchased more frequently during the winter, as this is when the majority of customers will be traveling to the mountains and there will be fewer purchases during the warmer months. We feel that we would like to keep a fairly consistent price over the years of operations as to show our dependability and relativity as a company which would reflect in our pricing structure. We may have high initially fixed cost, but we feel that entering the market where we plan to stay is the ideal move for this product since there is no direct completion. Pricing initially to high might scare customers away, as well as pricing to low, may allow customers to not pay a higher price in the future. A neutral entrance to the market is ideal for this product.

Price Formats

Our current competitor is the RTD system. The RTD has two different pricing formats, depending on the customer; there is a linear pricing model that charges a per-ride fee and then a bundle that is paid for monthly or yearly. For local rides its \$1.75, for the Express rail its \$3.00, the regional fare is \$4.00, the SkyRide to Denver International Airport is \$7.00, \$9.00, and \$11.00 depending on where the customer is coming from, and the Light Rail ranges from \$1.75 to \$4.00 depending on how far you take it. If the customer preferred to, they could purchase an unlimited monthly pass that costs \$60.00 for local rides, \$108.00 for the Express train, \$144.00 for the Regional train and from \$60.00-\$144.00 on the Light Rail depending on how far the customer needs to travel.

A fixed cost per unit strategy is beneficial in that the customer will never be confused about how much it will cost them to take the RTD service, and they won't have to worry about the price changing during certain seasons. The problem is that this strategy leaves no room for the company to adjust their prices without a huge amount of complaints and hassle. Bundling is beneficial because it offers two or more products together, at a cheaper price than the products would cost individually. For example if the consumer wanted a monthly local pass for \$60 as well as an Express pass for \$108; instead of paying \$168 for each individual pass, the RTD company could discount the price to \$140 making it less expensive for the consumer, and making the consumer be more likely to spend the money. The problem is that not all consumers will want all the passes that are in a bundle so they may be weary of purchasing a bundle. A two part pricing strategy would allow the consumer to buy a less expensive pass, such as the local pass, and then pay a little more if they take the other bus lines. This is good for the company because there is no way the consumer will use the bus system more than the pass is worth because they will be having to pay extra for other lines, however it is bad for the consumer because then they have to have cash each time they want a ride anywhere. Peak load pricing would allow the company to charge more around the holidays and other business times during the year, this is a good strategy because those who are dependent on the bus are forced to pay this extra amount, however those who have alternative forms of transportation will choose those instead.

For our product we will be using a two part pricing strategy as well as a peak load pricing strategy and bundling. The price will be \$ 250.00 for the Winter Unlimited season and \$150.00 for the Summer Unlimited season. This is an example of peak load pricing because the customer is being charged more for the big season; it is also a two part pricing strategy because the price is set but varies depending on the season. We will also be using two different bundling approaches, one being the discount the price to \$180.00 if the customer purchases a ColoradoPass or EpicPass in addition to our pass and the other of offering one way tickets, round trip tickets and seasonal unlimited passes.

Empirical Analysis:

For the empirical analysis we did our regression and log functions based on the Denver RTD system. We choose this because we felt this was the closest pricing system and product to the Snow Express. RDT had yearly cumulative expense of \$34,076,377.00

Here are our findings:

	<i>Coefficients</i>
Intercept	131182.93
Cost Per	
Ticket	-8982.7064
Spring	-44002.88
Summer	-18331.423

<i>T Stat</i>
1.73076687
-0.7110407
-4.3801563
-1.4990719

Log Log

	<i>Coefficients</i>	<i>Standard Error</i>
Intercept	12.6218162	3.74271546
Cost Per		
Ticket	-0.7629396	2.09148928
Spring	-0.8576814	0.30382658
Summer	-0.2688322	0.37004719

T-statistic is an estimated value of the coefficient. This number for each season is the statistically measure of likeliness of the actual value of the parameter is not zero. When t value is larger it has a lesser likelihood of the actual value of the parameter could be zero.

The coefficient is the representation of the rate of change in the variable, the variable being the fair costs.

We found that the elasticity of RDT is inelastic, this is because all the coefficients, BI, found for all seasons are negative which refers to all season as inelastic, meaning that when price increases demand decreases. We found that this make sense do to our economies current situation do rising oil cost and the RTD's dependency on this.

Quantity of Demand function: $Q=131,182.93-8,982.7064*P$

The optimal cost for the rider would \$1.86

Optimal price would be:

\$.044 for the spring

\$0.29 for the summer

\$2.72 for the fall

The Fall high optimal two price would be: \$9.12

The Fall low optimal two price would be: \$3.63

The Summer high optimal two price would be: \$8.47

The Summer low optimal two price would be: \$2.34

The Spring high optimal two price would be: \$6.70

The Spring low optimal two price would be: \$1.21

Profit maximizing price:

Fall: \$6.37

Spring: \$1.49

Summer: \$2.65

Conclusion

The Snow Express offers exceptional value over our competition. We will enter the market neutrally as to attract and maintain as many customers as possible. Our pricing structure and promotion apply to the price sensitive and the price insensitive with such options as one way ticket, round trip tickets as wells as unlimited seasonal passes. We will participate in such pricing promotions as surprise discount days advertized on the website as well as bundling techniques with Vail Resorts in the form of discounted rates to ColoradoPass and EpicPass holders. Our product offers exceptional qualities over our competitors such as safety during unpredictable winter months, reliability schedules, faster travel time and lower emissions being a light rail system.

Reference:

“Financial Documents.” Regional Transportations System. 2005. RTD. 19 Nov. 2008<<http://www.rtd-denver.com>>