

DigitalOnlineExchange[™]

MusicRebellion.com Dynamic Pricing Case Study

Executive Summary

This test was the first live test of Digonex's dynamic pricing software, Digital Online Exchange (DOE™). This test took place on the Digonex operated music sales/price testing platform, MusicRebellion.com. The test was divided into two distinct phases and designed to test the viability and acceptance of dynamic pricing in the digital media market.

Phase one lasted 36 hours and began when music prices were dropped to just \$0.10 per song. The Digital Online Exchange raised and lowered prices for each song to find and maintain the optimal price as the pertinent market conditions and buyer behavior changed.

Phase two, lasting a full 12 days, began when popular music prices were dropped to \$0.05 per song, with the remaining songs starting at \$0.30.

During phase one, MusicRebellion.com had approximately 5.5 million hits, 18,000 unique visitors, and 11,738 purchases. During phase two, MusicRebellion.com had approximately 9.5 million hits, 15,000 unique visitors and 23,126 purchases. The total number of visitors between both phases was approximately 33,000 and the total number of purchases neared 35,000 across 18,000 unique titles.

Our Conclusion

This experiment illustrated that the one-size-fits-all \$0.99 price for singles keeps many buyers out of the marketplace and further encourages illegal acquisition. Consumers are clearly eager to embrace a new pricing model for online purchases.

The underlying problems are:

1. Prices are too high
2. Prices are fixed and unable to adjust for shifts in demand.

Notable Phase One Results:

- The average number of purchases per person was 19.8. One quarter of the sample made 3 purchases or less, and one quarter made 26 or more.
- A total of 7833 singles were sold.
- 57.5% of subjects purchased at least one album. Prices were highly variable, the highest being \$7.90.
- The average subject spent \$4.29. One quarter of subjects spent less than \$1.00, and one quarter spent more than \$5.40. Ten subjects spent \$20 or more, and one subject spent over \$75.
- Rock was the most popular genre, comprising just over 30% of all sales. This was followed by Pop at about 23%. Rap/R&B weighed in at about 12%.

Notable Phase Two Results:

- The average age of purchasers was 34 years old. One half of the sample fell between the ages of 26 and 42. 17 was the youngest age, and 69 was the oldest. Three quarters of the sample was 42 or younger. Nevertheless, the fact that one quarter of the sample was over 42 indicates that more mature elements of the population cannot be neglected in business planning.
- Almost 4 out of 5 subjects chose not to report income level. Of the remainder, most subjects fell in the \$25,000 to \$55,000 range.
- Most individuals made one purchase, but some people made a large number of purchases, pulling the average number of purchases per person up to about 18. One quarter of the sample made 3 purchases or less, and one quarter made 23 or more.
- One quarter of the sample spent \$1.05 or less. Half of the sample spent more than \$3.72. One quarter spent more than \$8.10. The most common amount spent was \$0.30, and the average was \$3.72. One user spent \$129, and another spent \$209. All other users spent \$77 or less.
- Half of the sample purchased 10 tracks or more. One quarter purchased 22 or more.
- Singles purchased per user by genre (approx.):
 - **Rock/Metal** - 6.5
 - **Pop** - 3.9
 - **Rap and R&B** – 2.4
 - **Country** - 1.1

Pilot Observations:

- **Dynamic pricing can increase:**
 - Profitability 12 - 16%
 - Revenues 40 - 47%
 - Track sales 150 - 205%
- **Track prices varied from \$0.32 to \$1.47 depending on genre:**
 - The majority of track prices were between \$0.35 and \$0.75.
 - Smaller price clusters were observed around \$1.15 and \$1.50.
- **Dynamic pricing performance** - During the last six weeks, profits generated from Dynamic Pricing outperformed the profits generated from standard \$.99 pricing by an average of more than \$3 per track per week.
- **Consumers accept dynamic pricing** – There were over 35,000 purchases in 10 days with no complaints regarding dynamic pricing.
- **Popular albums showed dramatic price fluctuations** - 4 of the top 10 most popular albums doubled their retail price.
- **There was demand for full album downloads** - Almost 7% of all downloads were full album downloads.
- **Visitors purchased multiple tracks across the entire catalog** - Over half of purchasers bought more than 10 tracks per visit and one quarter of purchasers bought more than 22 tracks per visit.
- **Purchase levels were very much influenced by time of day** - Visitors bought the least music between 4:00 a.m. and 8:00 a.m.; sales began rising again to a peak between 8:00 p.m. and 12:00 a.m.
- **Individuals do not tend simply to purchase cheaper music alone** - Seeing prices rise did not scare off visitors from purchasing the music they wanted.

This experiment illustrated that the one-size-fits-all \$0.99 price for digital singles keeps many buyers out of the marketplace and that consumers are clearly eager to embrace a new pricing model for online purchases.