## Case Insight 9.1: Simply Business

# Philip Williams, Director of Strategy and Pricing

Hi, my name’s Paul Baines, I'm Professor of Political Marketing at the University of Leicester, and co-author of the fifth edition of *Marketing* by Oxford University Press. In this next clip, we talk to Phil Williams, Director of Strategy and Pricing at business-to-business insurance firm Simply Business, and he talks about how he’s developed the firm’s pricing strategy.

I'm Phil Williams, I'm the Director of Strategy and Pricing here at Simply Business, we’re the UK’s largest SME insurance provider, we provide insurance to 360,000 customers here in the UK and we operate both under our own brand, Simply Business and distribute through two large comparison websites here in the UK, Go Compare and Money Supermarket.

Commercial lines insurance is still predominantly distributed through high street brokers, so those brokers will normally negotiate their commissions directly with their insurers. The pricing of insurance is set by the insurers based on the risk that they’re seeing so whether that be a high turnover business or a low turnover business or whether the business works with any strange things like heat or at heights and then the commissions are set as a cost plus on top of that and brokers will be free to negotiate that, those levels of commissions with the insurers themselves.

So brokers that are able to deliver better quality clients to the insurers will typically be able to negotiate better commission levels and you know, that presents a few challenges for businesses like ours. Our business being an online one, has to adapt to the online, you know, the fast paced nature of that it’s very difficult for us to, have to on a case by case basis, negotiate with our insurance companies, the level of margin and much better for us to have more control over that, so that’s what we’ve done.

The number one thing to consider with developing a pricing strategy is what’s my competition doing? How are my prices set against the market? In any other markets that’s relatively easy to do, if I'm Tesco’s and I want to figure out what the price of bread is somewhere else, I can walk into my competition’s supermarket and have a look.

With insurance, it’s difficult, insurance risk rates are quite, you know, complicated in terms of calculation so you've got the customer’s risk details, the, all of the other information on a proposal form but also things like credit score, so those are verifiable details that need to be captured, so you can’t just type in any old details and, and figure out what the prices are. Also they’re really specific, each individual customer has got an individual price so doing that is more than just, you know, what’s the price of this one SKU?

So for us at Simply Business, our approach to that has been, let’s focus on ourselves, let’s focus on our own strike rates, let’s look internally, let’s change our prices and figure out what impact that has on our conversion rate because at the end of the day, that’s the no. 1 metric.

In the last couple of years, we’ve focused on driving conversion; we really wanted to understand how to make the best use of price as a lever. We’ve been discounting and, and that’s driven our conversion rates but in, in a market where we drive prices down, that means ultimately our competition will come down and and we’ll get into a price war and nobody will win in those circumstances.

So you know, what we wanted to do was understand who do we need to be discounting and who do we, who can we, leave at the, the normal prices? We wanted to do that so that we could basically save money on the, on the level of discount that we, we’re driving so our problem was how do we distinguish between the customers that need that discount and those that don’t?

The problem we wanted to understand was which of our customers needed a discount in order to buy and the way we addressed that was to really get some clean data, to really understand our customers’ behaviour. Of course, customers don’t tell you what they would have done given a different price so we wanted to capture information about how price affected the propensity to purchase in a really clean way.

So what we did was clean up our data and we introduced three completely randomised control trials, a third of our customers had the prices that they would have received previously, a third of our customers got prices that were, you know, included the discount and a third of our customers had prices that were a little higher and what we did was run that for a period of, of three months and take that information about who purchased at any given price and build a regression model on top of that to understand the effect of price, stripping out all of the other factors to do with the customer, so stripping out their turnover or their trade.

What we then wanted to do was take this new model for how customers behave and build a new rating structure that took that into account and was able to target the discounts that we knew were needed those in order to purchase.

We did that and know, the results were astounding, we implemented that in a controlled way and measured a 20% uplift in our profitability as a result.

I think look, we’re a technology business, we are a business that is focused on how we can leverage technology to make things better for customers. That not only comes across through the website and the journeys that we deliver but also through our use of data and pricing has, has been one example where we’ve leveraged data to drive improved performance. You know, we’ve built up a four strong team now who’s focused on pricing analytics but I think more than that, one of the lessons that we’ve learned for Simply Business is the importance of capturing and maintaining everything you can about your customers because that’s the way that you're gonna deliver benefit to them in the future.

Look, you know, we are a young and growing business, we started as a, six guys in a room by Tower Bridge ten years ago and now we’re the UK’s largest distributor of, of commercial lines with 360,000 customers. We’re gonna use our data capability and we’re gonna find out more about customers and deliver better insights to build better products for them, we’re gonna continue building, measuring and learning so I can’t tell you exactly what we’re gonna build but I know it’s gonna be exciting.