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How Pricing Can Power a Turnaround

A small business overhauls its fee model to woo customers and make a comeback.

By Jane Porter | May 23, 2011

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SMALL BUSINESS COMEBACKS

Offering your product for free may not appear to be the smartest move when your company is cash-strapped and struggling. But for Ian Aronovich, 38, co-founder and chief executive officer of GovernmentAuctions.org, an aggregator of government-auction listings, making his service free to the public for a trial period is precisely what helped turn around the company in the recession.



GovernmentAuctions.org Co-founders Ian Aronovich and Michael Pesochinsky. Photo courtesy of RS Photo Lab

In 2008, [GovernmentAuctions.org](#), which provides information on surplus and seized items being sold at government auctions around the country, was operating on the same pricing model that Aronovich and his partner Michael Pesochinsky developed when they launched the business in 2003. The Great Neck, N.Y.-based company charged customers a \$40 annual subscription fee to access to auction listings of items ranging from dump trucks and unclaimed land to electronics and jewelry. The service should have been particularly appealing to cash-strapped consumers, Aronovich says, but when the recession hit, sales began to drop. "People liked our membership, but didn't want to shell out one lump sum for the entire year," he says.

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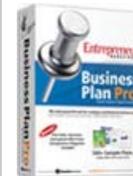
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A Low Point

By the start of 2009, the decline was too drastic to ignore. For the month of March, revenues were down to \$54,000 from a monthly average of \$70,000 before the downturn, while monthly overhead costs topped \$30,000. Aranovich, who has a law degree and Pesochinsky, who has a background in [software](#) development, knew their service needed to be priced differently, if they had any hope of turning the business around.

That's when the partners began taking a closer look at membership rates. They realized the company was doing little to make sure members renewed subscriptions once their year was up. "The best customer from our perspective is someone who has been with you," Aranovich says. "To acquire a new customer is much more expensive than to keep an old one."

While [business](#) was shrinking, Aranovich's family was growing. At the time, he had a three-year-old at home and another baby on the way. Nonetheless, it became clear that the company, which employs three full-time and two part-time contract workers, needed to make a drastic change. Aronovich and his partner decided to give up their paychecks for three months to avoid going into debt, while putting in 100-hour weeks to come up with a new pricing strategy for the company.

Turning the Tables

The partners decided to try incentives to attract more customers. First, they established a free three-day trial that let people test out the service and decide if they wanted to cancel before paying. Market research had suggested that giving customers a chance to try a service would make them far more likely to choose it. "If we made it less risky for our customers, they would be more likely to activate an account," Aronovich says.

On top of the new incentive, the company restructured its pricing model. Instead of requiring an upfront fee of \$40, they offered the free three-day trial with the option of cancelling before charges were applied. The monthly recurring charge would allow members to opt out when they wanted, but also let the company charge more over time given the shorter-term commitment.

Over the next few months, the company experimented with various price points, giving their sales figures to a statistician whose number-crunching determined that the best rate to charge was \$18.95 a month.

But when the new pricing went into effect at the end of May, revenue fell to its lowest ever -- less than \$20,000 in June as the company began building its new membership base. Over time, monthly sales began to rebound, climbing from \$20,000 to \$30,000 and eventually reaching \$82,000 a month in less than a year's time.

Today, nearly 60% of the people who opt for the company's free trial stay on to sign up for a monthly subscription. The new pricing model generates nearly six times more

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Reality Check

Aronovich and his partner had to ask a lot of tough questions to help get their company back on track. Consider how these might help you revamp [your business](#):

- Is your pricing model in need of an overhaul?
- How can you lessen the risk for your customers when it comes to buying your product or service?
- Are you making enough of an effort to understand your



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revenue for every customer who stays for a full year compared with the original \$40 flat rate. "It offers a lot more stability in terms of knowing how much revenue comes in," Aronovich says. "Even if we get less new people in a particular month, we know we will get renewals from the previous month."

customers and their changing needs?

In 2010 the company earned more than \$930,000 in revenue, a 58% increase from the \$588,000 in annual revenue from the year before.

Lessons Learned

Reaching out to customers for feedback and testing various prices before settling on one allowed the company to come up with the most profitable business strategy. "You can always pivot your strategy to make your business more successful in troubling times," Aronovich says.



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