

Designing Better Hunting & Fishing Licenses & Prices Approaches Employed by Southwick Associates

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Southwick Associates has employed several approaches to help states identify new license prices and new types of licenses that may generate extra revenue. The approaches are unique to each state based on each's needs and circumstances. Southwick Associates works closely with each state to plan and execute all work to ensure the state's information needs are fully addressed.

There are two basic questions to ask when restructuring your licenses:

- Step 1) Are your current licenses under (or over) priced? and
- Step 2) Do your current licenses best serve customers' needs, or are new options preferred (such as combos, multi-year options, etc.)?

Several approaches can be taken:

- 1) *Observe experiences in neighboring states*: Be cautious when doing this! License demand, price acceptance and trends can vary greatly between neighboring states.
- 2) *Surveys*: Ask customers what they want. But, be very careful as customers may not fully understand what they are being asked, and many customers will "low ball" their responses to prevent price hikes. There are survey methods available that minimize these biases.
- 3) *Analyze existing accurate data*: this approach uses historical license sales data to determine how much you can charge for existing licenses, and how many fewer licenses would be sold at specific price points. This approach cannot assess prices for any new licenses under consideration.

Considering the various strengths and weaknesses described above, the following process is typically employed by Southwick Associates. These steps complement each other, providing unique information and overcoming limitations:

Step 1) Are Current Licenses Over/Under Priced?

Growth in license revenues will never match your price hikes. A 10% price hike, for example, will not provide you with 10% revenue growth. For nearly all products, when prices increase, a few customers will stop buying, resulting in smaller revenue increases - if any increase at all. To identify how much your revenues will change at different price points, we assist state agencies by developing statistical regression-based models:

- These models use existing data to show how much revenue - and customer numbers - will change at different price points.
- The models compare all factors that impact sales, such as price, weather, license prices in neighboring states, employment, income, regulatory changes, etc., to statistically determine how much revenue you will earn at

different price points. The results are scientific, using multivariate techniques that also explain each model's reliability.

- The primary value provided includes identifying:
 - a. Which licenses can or cannot withstand price hikes (sometimes a license may provide a boost in revenue when it's price is lowered),
 - b. The net revenues expected at specific new price points, including impacts to excise tax receipts, and
 - c. The number of customers to be lost as a result of price hikes.

This step will identify how much your overall revenues will increase or decrease at different proposed price points. The results allow you to smartly adjust pricing for each license rather than blindly applying a uniform increase across all licenses. This analysis costs from \$9,500 to \$16,000 depending on the number of models to be developed. We recommend modeling all licenses that generate 5% or more of your agency's revenue. About eight weeks are required. Southwick Associates has provided such studies for over 30 states.

Step 2) Identify Potential New Licenses And Prices:

There may be new licenses, multi-year options or combination licenses that customers would prefer and would pay more for. Recognizing past license sales data cannot predict how people will react to new license concepts, we employ a "conjoint" survey method to statistically determine how they will respond:

- Conjoint surveys identify which new combinations of privileges and prices, or new concepts (multi-year licenses, extra rod licenses, etc.) would be preferred by your customers.
- The surveys ask customers to compare four or five options from a long list of possible licenses and prices and pick the one(s) they like best.
- Statistical analyses then examine how your customers trade-off between different choices. The results show which license concepts are preferred over current licenses offered, and how many would sell at different price points. Simple math then tells us the revenues possible from each proposed license.
- These surveys use visual elements via mail or online surveys allowing customers to compare various licensing packages.
- Online surveys result in lower costs. Some states request a smaller side-by-side mail survey to help test for biases and develop adjustments if needed, though such adjustments have been very rare.
- A conjoint survey can take 7 – 10 months typically.
- The conjoint approach typically costs between \$15,000 - \$60,000, depending if mail or email approaches are used.
- Experience: We have conducted conjoint surveys to help the following states redesign their license offerings: Washington, New Jersey, Kentucky, Iowa, Oregon, Nebraska, Idaho and more. We have also conducted numerous similar conjoint studies to help private companies design and price new products, including the nation's best-selling handgun and fishing lines.