

Different Pricing Strokes for Different Folks

By Warren Liberman
President, Veritec Solutions

At Veritec Solutions, we collect prices on a daily basis from over 1,500 self storage companies, operating more than 18,000 stores. The number of stores in these companies range from one to over 2,000. So, what are some of the insights this data provides?

For the first half of this article we focus on 10 of the larger operators. Specifically, we analyze the pricing activity for unit types that were displayed on websites for at least 300 days in 2018 (that is, they were rarely sold out). Furthermore, we restricted our analysis to unit types that were at least 25 square feet but no more than 300 square feet in size. For example, a unit type might be the 10' x 10', ground floor, climate-controlled units at a given store. The average number of unit types per store ranged from six to over 30. For each of the 10 companies, prices were obtained from more than 100 stores.

How often did Operators change prices?

Figure 1 below shows both the average number of times each company changed the prices of its unit types and the maximum number of price changes made for any unit type. The data from these 10 companies, noted on the graphs as A through J, suggest that large self storage operators approach pricing very differently.

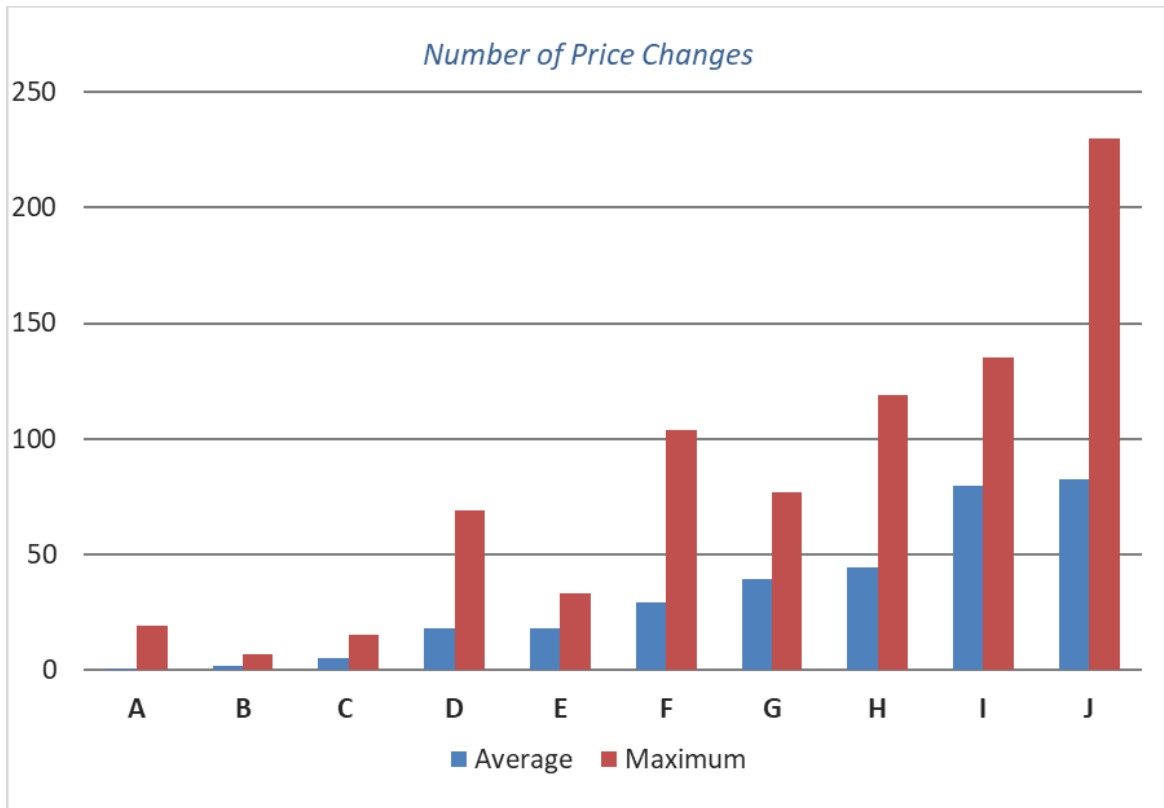


Figure 1

For example, Company E changed the price of a unit type an average of 18.1 times in 2018; the most price changes that E made for any of its unit types was 33. Companies A, B and C rarely changed prices, while I and J typically changed the prices of their unit types every week or even more frequently. For some unit types, Company J changed its move-in price as frequently as four to five times per week (some unit types had their prices changed more than 210 times during the year)!

How big were the price changes?

When we look at the typical size of the price changes made by these companies, we also see significant, and rather interesting, differences. Figure 2 below shows the average percentage price change for each company.

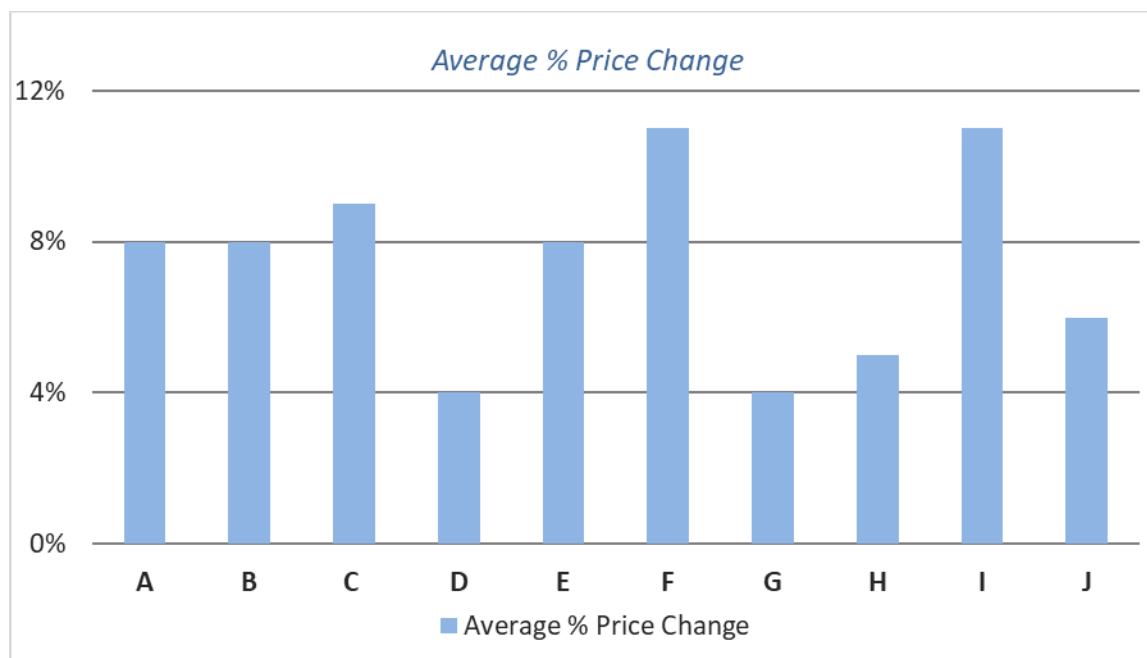


Figure 2

The average price change ranged from 4 to 11 percent across the 10 companies. Companies D and G changed their prices by the smallest amounts, whereas F and I changed by the largest.

Based on the average amount by which these companies changed their prices, their pricing strategies and tactics may not seem too different. After all, the average price change for a \$100/month rental ranged from about \$4 to \$11; Certainly different, but perhaps not dramatically so. As might be expected, price change percentages tended to be higher for lower priced unit types, but the difference was relatively small.

Upon closer inspection, however, differences in the pricing tactics carried out by these companies become more apparent. Figure 3 highlights how often each company made a “micro” price change of less than 1% as well as a “mini” change of less than 3%. Yes, that means a “mini” price change was \$3 or less for a \$100/month rental, and a “micro” change would have been for \$1 or less! (Note: mini price changes include micro price changes).

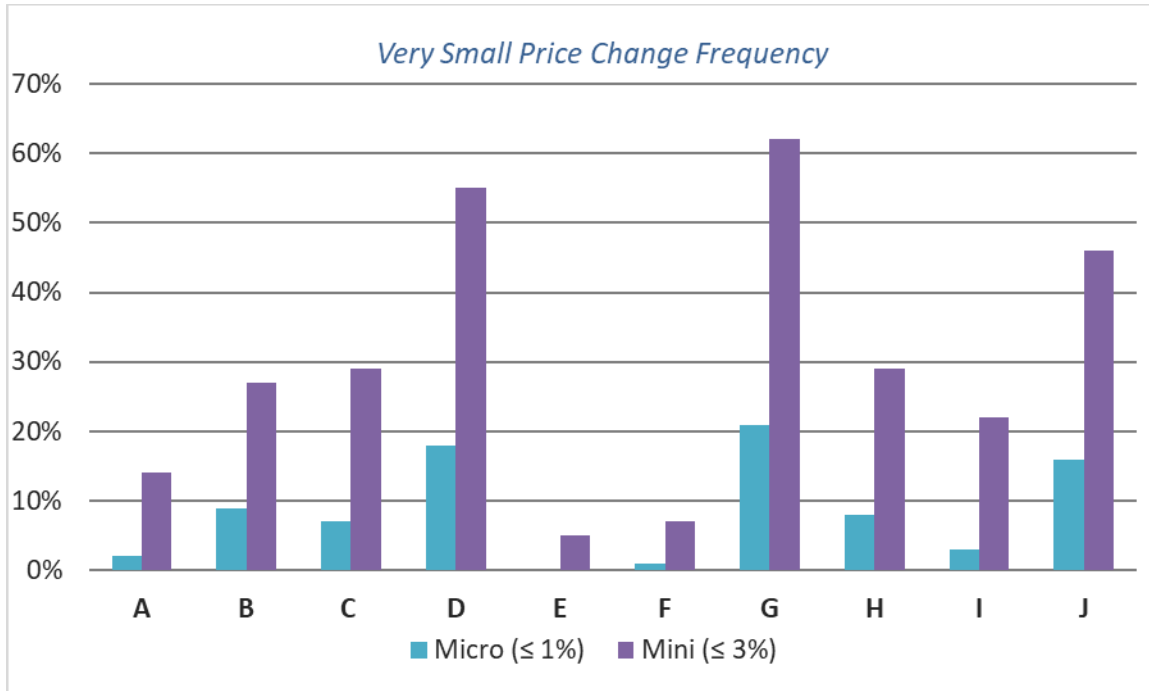


Figure 3

Companies D, G, and J made many small price changes. When G changed the move-in price on a unit type, the price was a mini change (3% or less) approximately 60% of the time. 21% of the price changes made by G were micro (1% or less) ones.

Conversely, when Company I changed the price of a unit type, mini price changes were made only 22% of the time and only 3% of the changes were micro ones.

Indeed, Self storage companies, even large ones, adopt a wide range of pricing tactics.

For example, Companies D and I provide an interesting contrast. Let's cross-reference Figure 1 and Figure 3. D averaged only 17.8 prices changes per unit in 2018; I averaged more than four times as many (79.8 price changes). Yet over half (55%) of D's changes were mini—less than 3%—price changes, compared with 22% for Company I. So, not only was D less likely to change its prices, when it did so, it changed them by much smaller amounts.

Company D's pricing approach, focused on making small pricing adjustments, looks almost like a surgical, precision-strike one. Possibly this is with the goal of pricing just under the competition. Or, perhaps prices are changed not to

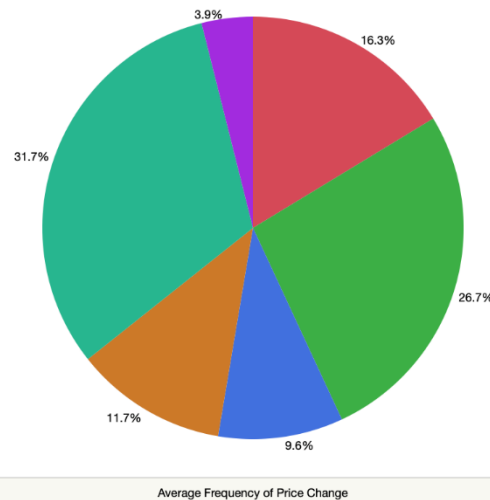
accomplish a larger strategy, but rather simply due to business rules that are embedded in a system that automatically adjusts prices by a little bit every time there is a move-in or a move-out. Company I's strategy is more aggressive, executing price changes much more frequently, and also making bigger price moves. Rather than changing prices as a consequence of move-ins and move-outs, perhaps Company I increases its prices by larger amounts prior to weekends when walk-in demand tends to be strongest and customers are less likely to "price shop," and then decreases prices after the weekend.

Depending on whether your competitors employ the pricing tactics used by Company D, I, or follow another approach, the best competitive response for your company might be quite different.

What about regional pricing differences?

For the following analyses we broadened our investigation. We conducted a variety of analyses to see if we could identify differences in the way prices were managed in different geographic locations. For example, do self storage operators in larger cities such as Houston, TX and Chicago, IL tend to change their prices more frequently than in smaller cities, such as Amarillo, TX and Aurora, IL. We also examined whether prices were managed differently in cities where there were few self storage facilities compared to cities where there were many.

First, however, we examined how often prices of units were changed at stores across all 50 states. As noted above, we monitored the pricing activity for unit groups that were displayed on websites for at least 300 days in 2018 at almost 12,000 stores in the United States. Figure 4 highlights the average frequency with which the price of a unit type was changed. *At approximately 16% of the stores, prices were not changed for any of the generally available unit types in 2018!* On average, more than a quarter of the stores changed their prices up to once per month. But, over 35% of the stores changed prices more than once per week. So, while a considerable number of stores maintain static, or relatively static prices, there are also many stores that actively managed their prices.



■ No price changes ■ Once per month or less ■ 1 - 2 times per month ■ Up to once per week ■ Once to twice per week ■ More than twice per week

Figure 4. Average Frequency of Price Changes at Stores

For a variety of states, Table 1 displays the extent to which prices were changed relatively infrequently, that is no more than once per month, as well as more than once per week (we obtained data from 198 or more stores in each of the states). As you can see, the prices at stores in Arizona, Louisiana, Ohio, Oklahoma, Pennsylvania, Tennessee and Texas tend to be managed far less aggressively than in Maryland, Florida, and California.

State	Percent of Stores Changing Prices Once a Month or Less	Percent of Stores Changing Prices More than Once a Week
Arizona	49	26
California	40	44
Colorado	32	42
Florida	26	48
Georgia	46	38
Illinois	30	38
Louisiana	69	12
Maryland	15	68
New York	38	39
Ohio	43	22
Oklahoma	81	16
Pennsylvania	59	32
Tennessee	43	29
Texas	47	30

Table 1. Average Frequency with which Prices are Changed (Per Unit Type)
 Table 2 provides the same information for some of the additional states where we obtained data from at least 60 stores. Table 2 includes a count of the number of self storage stores from which we obtained pricing data.

State	Number of Stores in Sample	Percent of Stores Changing Prices Once a Month or Less	Percent of Stores Changing Prices More than Once a Week
Indiana	143	53	26
Kentucky	118	47	16
Minnesota	80	32	64
Nevada	132	51	14
New Jersey	322	35	47
New Mexico	63	67	32
Oregon	160	54	26
Utah	75	45	37
Virginia	368	35	42

Table 2. Average Frequency with which Prices are Changed (Per Unit Type)

When we analyzed how prices were managed in cities across the United States in 2018, we found that there were fewer than 100 cities where three or more of the 10 largest self storage companies changed the prices of their generally available units at least once a week. Some of the most “competitive” cities were Austin, TX and Naples, FL. Additionally, Houston, San Antonio, Chicago, Dallas, Las Vegas, Miami, Jacksonville, Los Angeles, Orlando, Charlotte, Denver, Atlanta, and Tampa were some of the cities where there were numerous self storage stores that frequently changed their prices.

To a great extent, however, the frequency with which prices were changed in a geographic region was determined not by the amount of competition, but by who was competing – that is, the specific operators that were located in the area. Figures 5 and 6 show the frequency with which two of the largest REIT's changed their prices of unit types at their stores. At every one of its stores across the United States, REIT 1 changed the price of its units an average of more than once per week. At over 95 percent of the stores of REIT 1, the price of each unit type was changed, on average, one to two times per week. At 3.5 percent of its stores, the frequency was greater than twice per week. For REIT 1, it really is

true that prices are either increasing or decreasing each week (roughly half of the price changes were increases). REIT 2 tended to change its prices less frequently than REIT 1, but still changed the prices of each unit type, on average, more than once per week at 70 percent of its stores.

REIT 1

REIT 2

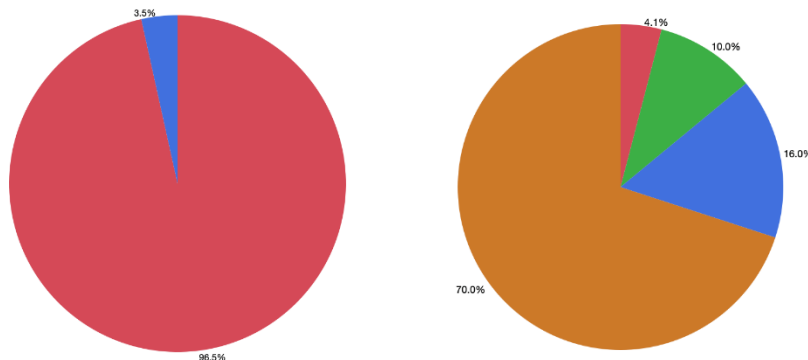


Figure 5. Average Frequency that the Price of a Unit Type is Changed at a Store

Conversely, as shown in Figure 6, at more than half of its stores REIT 3 did not change any of its prices during 2018; at stores where it did change prices, except for one store in Texas (not shown), the rate at which REIT 3 changed the prices of its unit types averaged less than once per month. Although REIT 4 was fairly active managing its prices, it did not change its prices as nearly as frequently as REIT's 1 and 2. REIT 4 did not have any stores where the prices were changed, on average, more frequently than weekly.

REIT 3

REIT 4

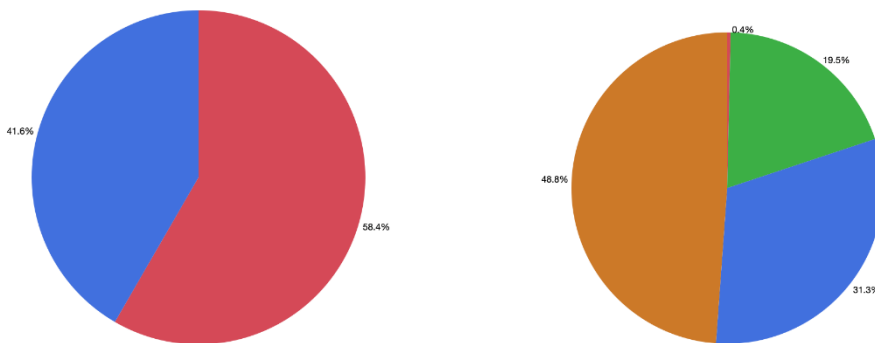


Figure 6. Average Frequency that the Price of a Unit Type is Changed at a Store

This brief analysis of pricing data demonstrates that different companies employ a broad range of pricing tactics. Understanding how frequently your competitors change their prices and by how much, can be a key element for ensuring that you are appropriately positioned, pricewise, for your stores. In practice, the old adage of “know your competitors” may be especially significant for self storage operators. If your competitors actively manage their prices and you do not, you may be at a competitive disadvantage as your competitors will reduce prices to stimulate demand by taking market share from you when they need to do so; and, when your competitors have limited availability, they will likely increase their prices, earning greater revenues and profits. Conversely, if your competitors do not actively manage their prices and you do, you may have a competitive advantage and an opening to greater revenues and profits.

To borrow a line from Hollywood, “may the price be ever in your favor.”