At Acorn Mini Storage, three of every 10 customers chooses to pay more for a more convenient unit.

The Price is Right

Tenants are willing to pay a premium for convenience, value.

By Laura Williams-Tracy

If you want to stretch your legs on that flight, pay extra for the aisle seat. A cruise ship room with a balcony will cost a little more than one without a view.

The same pricing strategy that is driving revenue gains in other industries is making its way to self storage. Tenants, it seems, aren't as price-conscious when it comes to self storage as operators might think, and some are willing to pay more for convenience.

Value-based pricing is gaining traction in self storage as technology advances make it easier to implement and operators search for new levers to drive revenue amid a recession and new supply. In September, The Storage Group launched an upgrade to its ClickandStor product to enable a 3D facility diagram for pricing storage units.

"This is the next step in self storage evolving and growing," said Chris Kirwan, president of Acorn Mini Storage, who implemented dynamic value pricing at his 15 stores in Minnesota. "Customers like it, and three out of every 10 choose it. They are happy to have something differentiated. And it's their choice."

Value-based price is a pricing strategy that sets prices according to the perceived value of a product to the customer rather than according to the cost of the product or historical prices. Where it is successfully used, it can improve profitability by generating higher prices for some customers without damaging sales volumes.

Square footage is only one aspect of what people using self storage are willing to pay for, said Warren Lieberman, president of Veritec Solutions, whose technology powers much of the dynamic value pricing in self storage.

"If you have 80 square feet in a convenient location, people will pay more for it than 100 square feet in a less convenient location if they don't need that space," Lieberman said. "What a lot of people don't realize is that customers tend to be less price-sensitive than we all anticipated."

Becoming More Dynamic

Value pricing has been a practice for some in self storage for the better part of a decade. Some operators price units based on their location in the store with the five units nearest the elevator, for example, set aside in a higher-priced category than others. Over time, operators saw the problem with that approach, Lieberman said, is that once those higher-priced units are rented, there are only lesser units left to promote.

Starting in 2014, Veritec Solutions came up with a dynamic pricing approach, which allowed operators to look at all available units each day and, among those still vacant, identify the most convenient and price them accordingly.

Missouri-based StorageMart, the largest private self storage owner in the world, was the first company to implement Veritec's dynamic pricing model at the store level. Managers received a daily report on the more convenient units.

"We thought we would get 20% of people to upgrade, and in many stores it's 35% that upgrade," Lieberman said.

Making It Happen

The lure of higher revenue is strong, but there is work to be done to get there. The first task is to map every unit in each facility. That requires locating an existing map or creating a new one. Then the units must be ranked as good, better or best.

"That's a heavy lift," said Kirwan.

Acorn Mini Storage's director of operations did the work to compile store information and unit rankings and

Compass Self Storage implemented dynamic value pricing at all of its nearly 100 stores, including this location in Mansfield, Texas. Nearly three in every 10 customers chooses to pay more for a convenient storage unit.

load that information integrating Veritec's dynamic pricing tool with SiteLink, Acorn's property management system.

When Ed Hainrihar, vice president of operations for Compass Self Storage, part of the Amsdell Companies, set out to implement dynamic pricing, he found that about 30% of the company's 90+ stores needed a new map. Once that was done, he and store managers conferred to determine which were the good, better and best units on the property.

"Our value pricing is standard units, best-value units and easy-access units," Hainrihar said. "Those getting the highest ranking of 'easy access' are closest to the gate, closest to the elevator, or close to an entrance. Best-values are the middle ground, and standard units are the least desirable. When a unit is rented, the deck is reshuffled and a new group of available units are ranked."

Driving Revenue Increases

The payoff with dynamic value pricing comes as a subset of customers is revealed to be willing to pay more for the best units. While the formula can be different at each property given its particular layout or mix of units, many operators tend to price their least desirable units at the street rate. Mid-range "better" units in a multi-story facility are typically 10% to 12% more than "good" units. The best units are 18% to 22% more than the street rate.

For drive-up units, the differentials are typically a 7% premium for better units and a 15% premium for the most convenient units.

Quickly, Lieberman said, the revenue increases are realized.

"In a 400 to 500-unit store, within a year you might be up $800 a month increased revenue or in two years up $2,000 a month or more," Lieberman said. "A $25,000 increase in revenue for a store and possibly larger, that's significant additional profit."

Acorn Mini has been using Veritec Solution's value pricing software for just over a year.

"We have really benefited from it," Kirwan said, adding that dynamic pricing allowed the company to recapture revenue lost in markets where supply drives down street rates. "This has allowed us to claw back some of that missing rental revenue because we are able to upgrade three out of every 10 customers."

Making the Value Evident

Giving customers the option to pay more for their preferences is similar to airlines offering upgraded seats. But airplanes are laid out pretty much the same, making it easy for passengers to perceive the value of paying extra for first class. It is harder to conceptualize the benefit of a particular storage unit without visiting the site.

To overcome the visualization challenge, The Storage Group has rolled out an interactive mapping tool to allow customers to make good, better and best pricing decisions when reserving storage units online. The software is an upgrade to the ClickandStor online rental platform and includes a 3D modeling tool. Storage operators can create an online model of their store whereby customers can see color-coded units online and make a selection based on location and price.

Steve Lucas, president of The Storage Group, said translating value pricing to online rentals is even more important as the COVID-19 pandemic accelerates the trend toward touchless rentals.

"It's very similar to what the airlines have been doing for 15 years with first-class seats or aisle seats," Lucas said. "In a time when optimizing revenue is becoming more difficult, the good, better, best model allows you to optimize the revenue stream."

Technology supports the effort, but managers have an important role in making dynamic value pricing work, said Hainrihar of Compass.

"So much relies on the manager," he said. "It's hard for customers to envision the unit online and the value of being closer to the gate. I think that technology is improving with drone footage to fly to your unit. At this point it works best if done on-site."

While value pricing offers an opportunity to increase revenue, operators warned of raising the differential price too much. Raising the standard level risks losing demand capture. Many customers simply want the least-expensive option.

"You've got to be careful to not get too greedy with it," Hainrihar said. "Make sure it's a value to the customer. Pigs get fat. Hogs get slaughtered." ❖