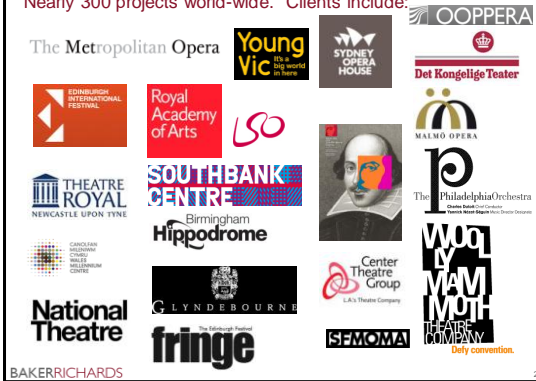


## Audiences Northern Ireland The Price is Right?

Tim Baker  
November 2011

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Nearly 300 projects world-wide. Clients include:



*"Everything is worth what its purchaser  
will pay for it"*

*(Publius Syrus, "Sententiae", First Century BC)*

### How do you set prices?

- What are your objectives?
- What factors do you consider?
- What are the steps in the price-setting process?

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### Agenda

- Price & value: two sides of the same coin
- Understanding, creating and communicating value
- Realising value through price differentiation
- The price differentiation toolbox
- Price metrics and the psychology of price
- Primary value fences: inventory
- Secondary value fences: concessions, sales promotion, subscription, and more
- Realising the full value of every seat sold: secondary spend, bundling and donations
- Understanding revenue management
- Dynamic pricing: case study

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### Why arts pricing is different (1)

Commercial enterprises usually have  
only one objective:



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Arts enterprises normally have three objectives:



- Artistic objectives: attracting audiences to new and different work



- Social objectives: attracting new and different audiences



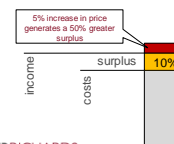
- Financial objectives: paying the bills

Pricing Principles for the Arts

- People exchange money and time in expectation of receiving **value** in return
- That value is more **perceived** than real
- Perceptions of value are almost **unique** to each customer for each event
- The key to unlocking value is **price differentiation**
- Price differentiation allows organizations to achieve **multiple objectives**
  - optimize volume of attendance
  - promote accessibility
  - maximize income
- Differential prices should be **value fenced**
- Cultural organizations have an enormous range of variables (value fences) available to adjust prices in order to achieve multiple objectives.
- That flexibility is multiplied by the application of revenue management and dynamic pricing tactics

Pricing Potential

- Optimising decisions on the tiniest details can add up to significant marginal gains
- Adjustments to pricing strategy are usually structural, so they continue to deliver returns year on year
- Returns go straight to the bottom line:



Ticket sales up 12%,  
income up 23% to  
generate additional  
£160k on one show



Price increased by 9%  
but yield up 12% thanks  
to subtle re-scaling



Birmingham  
**Hippodrome**  
£450k in first year of  
pricing advice

Value for money?



Utility and perceptions of value

utility



£ 50



£ ???

versus perceived value

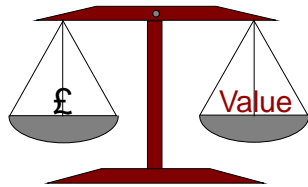
Why arts pricing is different (2)

utility



versus perceived value

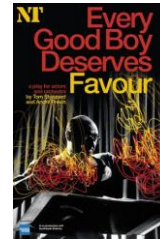
## Value-based pricing



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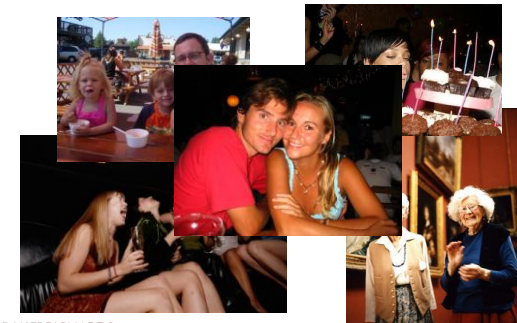
## Value-based pricing means understanding motivations...



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## Motivations for going out; and pricing implications



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## Value and motivations

- Motivations for attending the arts are usually rationalised as simply 'I want to see...', but this may mask other more basic social needs
- Motivations are driven by the characteristics of each customer
- Motivations can vary.... The same people can have different motivations on different occasions
- **Perceptions of value are almost unique to each customer for each event**
- **Customers' competitive set – and thus their benchmark for fair prices – varies according to their motivations**

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## Value, in three simple steps...

1. Understand what value people are **seeking**
  - Perceptions of value
  - Motivations
2. Create relevant value to meet their needs
  - **Not** just what you put on stage
3. Communicate that value effectively

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## 2. Create relevant value



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## 2. Create relevant value

Families

centrepoint THEATRE

Manchester Art Gallery

Family Art Clubs

Events

Family art club

Sign up for our family email

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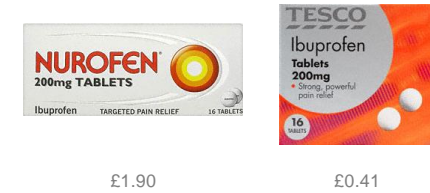
## 3. Communicate value effectively...

Value not communicated is valueless.

The better you communicate the value you offer, the more you increase that value.

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## The Placebo Effect



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## Try not to speak in code...

**Great Conductors:**  
**Bernard Haitink**  
with Dame Felicity Lott

15 Jun 2008 7:30 PM  
Barbican Hall

MOZART: Symphony No 25 in G minor, K183K173db  
STRAUSS: Orchestral Songs  
STRAUSS: Ein Heldenleben

**Bernard Haitink** conductor  
**Dame Felicity Lott** soprano

London Symphony Orchestra

Tickets: £5 £12 £18 £24 £30

Buy tickets

Mobile Alert

Pre-concert performance  
Barbican, 5pm  
Guildhall School musicians perform Mozart and Strauss violin sonatas in advance of the evening's performance.

Strauss was one of the great masters of vocal melody, but many of his songs drew added inspiration and radiance from his marriage to soprano Pauline de Ahna. In the tone-poem *Ein Heldenleben* ('A Hero's Life') he seems to cast himself as the hero, freely quoting his own works as he depicts the battles and triumphs of the creative artist's trajectory. Mozart's Symphony No 25 is a teenage work, vividly engaging with the turbulent emotional style of *Sturm und Drang*.

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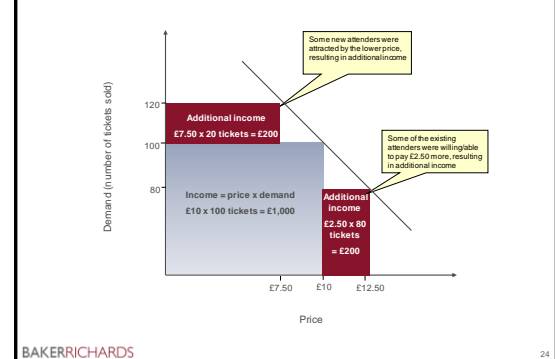
## Price Differentiation and the Pricing Toolbox



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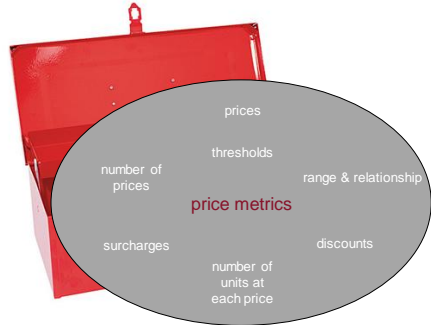
23

## The key to unlocking value is Price Differentiation



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### The Pricing Toolbox: Price Metrics



### The Psychology of Price

### Why do people pay over the odds for tickets?

#### Most Expensive Concert Events of the Last 2 Years

Artist	City	State	Avg. Price
Sting (25th Anniversary/60th Birthday Concert)	New York	NY	\$1,073.83
Rod Stewart	Las Vegas	NV	\$784.00
Donny & Marie - Christmas In	Chicago	IL	\$750.00
Luis Miguel	Las Vegas	NV	\$693.00
Rod Stewart	Las Vegas	NV	\$631.50

SCARCITY VALUE?

???

It's not just supply and demand....

### The Psychology of Price



### Challenging Classical Economics

Classical economics is based on the assumption of a rational person 'homo economicus' making decisions with the aid of perfect information

"If you look at economics textbooks, you will learn that homo economicus can think like Albert Einstein, store as much memory as IBM's Big Blue, and exercise the willpower of Mahatma Gandhi."

Dan Ariely ('Predictably Irrational')

Human decision-making is based on the interplay of the conscious and un-conscious mind.

A battle between two systems of thought: the reflective system and the automatic system.

Thaler and Sunstein ('Nudge')

### Introducing BEHAVIOURAL ECONOMICS

Reflective System **versus** Automatic System

'controlled, effortful, deductive, slow, self-aware and rule-following'

'uncontrolled, effortless, associative, fast, unconscious and skilled'

## Introducing BEHAVIOURAL ECONOMICS

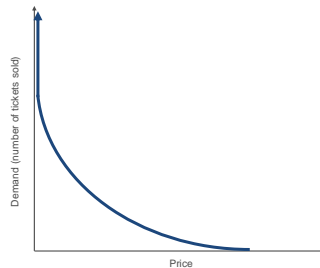
'Homo Economicus' versus Homer Economicus



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## Free is a magic number



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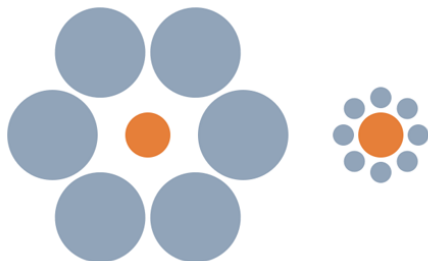
## Decoy pricing



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## Relativity and Price...



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## Anchor prices & relative pricing



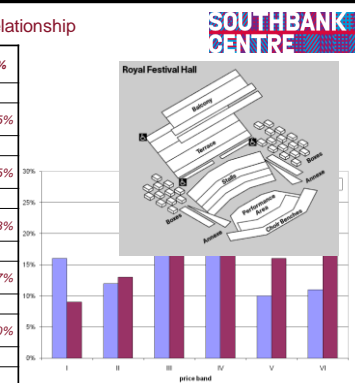
	Select Year:		2009-10			
	Season Price		FNO 2009-09			
	Opera House	Opera House	Opera/Ballet	Ballet	Premiere	Contemporary Ballet
16	95 €	80 €	62 €	70 €	50 €	
gap						
increase						
PB.II	88 €	86 €	56 €	62 €	42 €	
gap						
increase						
PB.III	75 €	58 €	44 €	50 €	36 €	
gap						
increase						
PB.IV	55 €	43 €	33 €	38 €	30 €	
gap						
increase						
PB.V	40 €	30 €	22 €	26 €	20 €	
gap						
increase						
PB.VI	27 €	18 €	14 €	16 €	12 €	
Range	73 €	66 €	48 €	54 €	38 €	
Ratio	4.32	5.73	4.43	4.38	4.17	
Range top to Bottom			83 €			
Average Price	76 €	62 €	50 €	56 €	39 €	
Gross Potential Cap	102,562 €	82,850 €	66,760 €	78,638 €	51,922 €	

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## Price range and relationship

Price break	Price Difference	+
I	£50	
	£10	25%
II	£40	
	£8	25%
III	£32	
	£7	28%
IV	£25	
	£10	67%
V	£15	
	£5	50%
VI	£10	
	-	-

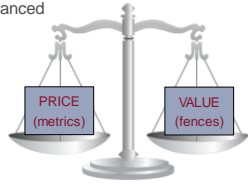


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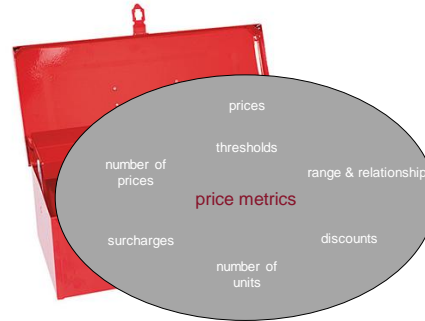
36

### The Pricing Toolbox: Value Fences

- Each difference in price (metrics) needs to be justified by a difference in value
- Value fences describe the differences in value that create the reason why people will pay more
- You can add value, and you can subtract it: lower prices, e.g. discounts, must also be justified
- Price and value should be balanced



### The Pricing Toolbox: hundreds of variables



### The Pricing Toolbox

Differentiating Prices by PRODUCT

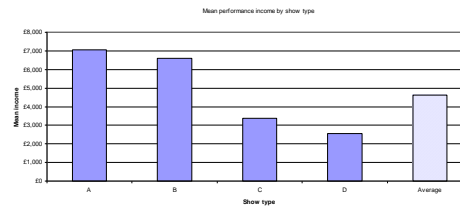
### The Pricing Toolbox: varying prices by PRODUCT Case Study: Oxford Playhouse



- Four prices for shows, according to type of production
  - A (for the 'top' shows)
  - B (for the standard shows)
  - C (for productions with lower value e.g. one-man shows)
  - D (for the really risky shows)

### Analysis

- They were actually very good at picking which shows were which...



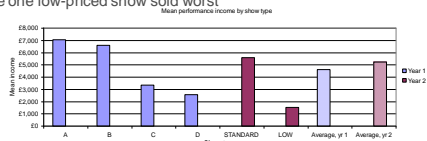
- ...But this meant that the prices were sending a message to the audience about the relative 'value' of the shows

### New Strategy

- Everything priced the same (at the 'B' level)
- Except for really big shows which would be premium priced (at the A level)
- Except, they were nervous about one production...

## Results

- No 'A' shows in following season
- Average income across all shows was slightly lower than for the previous 'B's, but still much higher than for C's and D's
- In fact two of the shows that would have been C's outsold those that would have been B's
- The one low-priced show sold worst



- Average income per performance increased by £580 (adjusted for inflation)
- Multiplied by 108 performances = £62,640 additional income

## The Pricing Toolbox

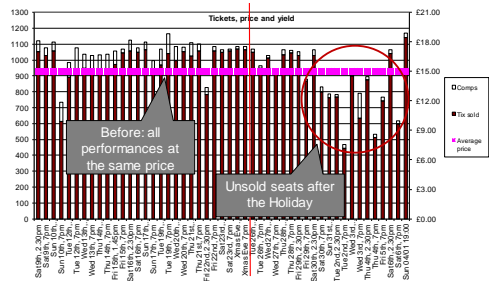
Differentiating Prices by PERFORMANCE

## Variable Pricing by Performance

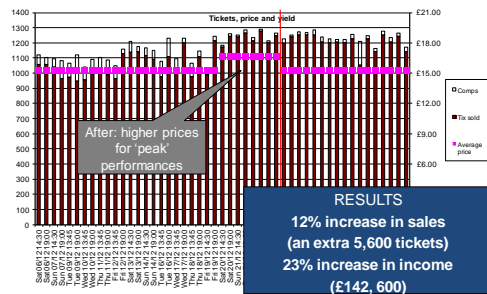


PRICE BAND 1	PRICE BAND 2	PRICE BAND 3	
Stalls	£1000 - £1200	£1100 - £1300	£1200 - £1400
Upper Circle	£800 - £1000	£900 - £1100	£1000 - £1200
Lower Circle	£600 - £800	£700 - £900	£800 - £1000
Circle Seats	£500 - £700	£600 - £800	£700 - £900
Circle Seats	£400 - £600	£500 - £700	£600 - £800
Circle Seats	£300 - £500	£400 - £600	£500 - £700
Circle Seats	£200 - £400	£300 - £500	£400 - £600
Circle Seats	£100 - £300	£200 - £400	£300 - £500

## The Pricing Toolbox: varying prices by PERFORMANCE Case Study: His Majesty's Theatre, Aberdeen



## Higher prices and restricted discounting around Christmas protected yield and moved demand into the post-holiday period



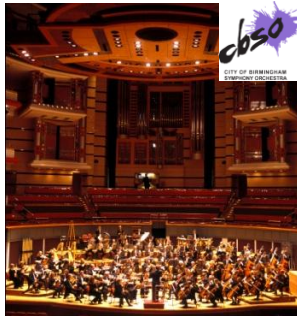
## The Pricing Toolbox

Differentiating Prices by SEAT

There is always a best seat

The trick is to let your customers tell you which it is...

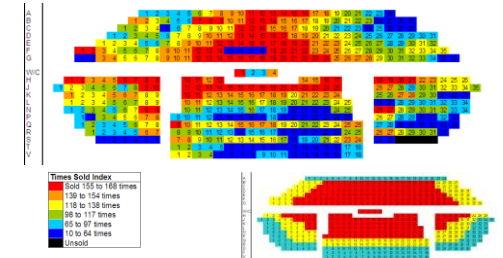
Letting customers tell you which are the best seats



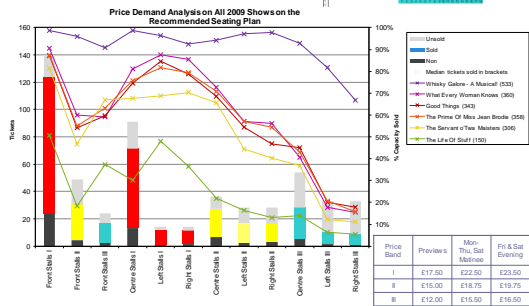
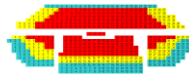
- New venue: Symphony Hall
- Priced 'logically' according to assessment of seating
- But over ten years, income fell
- Customers were 'learning' the hall and choosing cheaper seats
- 'Scaling' adjusted to reflect customer demand
- Price increased by 9%, but yield increased by 12%

Case Study: Pitlochry Festival Theatre

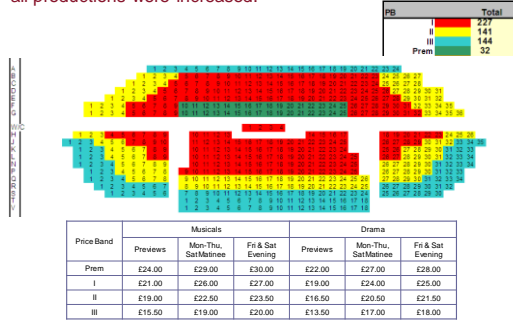
The most popular seats were at the centre of the auditorium: an opportunity for a Premium section.



For all 6 productions, demand was always for the top price seats suggesting potential to increase prices and availability.



For 2010 a new seating plan was introduced and prices across all productions were increased.



Results....

- At the start of the season in 2010, 24,186 tickets had already been sold; **an increase of 5,814 from the previous year**
- The new prices pushed the average price across the season up to £21.63 (an increase of £2.21), but average gross yield also increased in line
- This increase in the number of tickets sold, along with the increase in average price generated £508,323 in revenue; **an increase of £166,451 from the previous year**

## The Pricing Toolbox

DISCOUNTING, OR  
Differentiation by customer characteristics and behaviour

## Why arts pricing is different (3)

Two types of discounting:

### Sales Promotion

Discounting to  
stimulate additional  
demand in order to  
meet sales  
objectives

### Concessions

Discounting to  
encourage  
attendance from  
particular groups in  
order to meet social  
objectives

## Discounting without the Drama: the most dynamic form of pricing

Discounts can be adjusted three ways:

- Applicability
  - Who can get the discount
- Availability
  - How many discounted tickets are available – controlled through quotas
- Discount Rates

Discounts can be adjusted:

- By performance
- By customer
- By sales channel
- Over the sales cycle

Description of discount rates affects perception and income:

- Fixed lower price, e.g. best available for £10 is a very simple promotional message
- Percentages allow for consistent discounts to be applied across multiple prices (e.g. for subscription) but many people don't understand them!
- Fixed discount: £5 off £20 is 25% discount... £5 off £40 is only 12.5%
- 2for1 ('twofer') is actually just a 50% discount, 4 for 2 might actually generate more sales

## Exploiting latent price sensitive demand

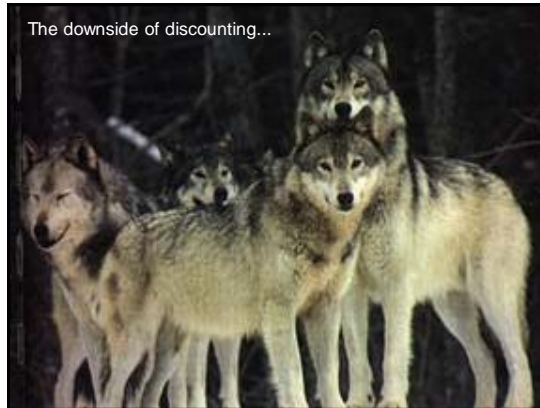
Creating a 'hopper' of price sensitive demand can be very useful for shifting 'distressed' inventory:

- Standard tactics:
  - Standby
  - Secondary markets
- Segmentation:
  - Identify your 'discount junkies' and feed them when you need them
- Standing subsidised discount scheme



The Aditya Mittal tickets for under 25s


The downside of discounting...



## The Pricing Toolbox

Subscription

Harmonized Subscription Prices: differences in VALUE drive choices, rather than prices



**Series**  
Packages of concerts performed Tuesday through Saturday  
Six or nine concert packages  
First priority & seats retained

=

**Create your Own collection**  
Choose six or more concerts to enjoy the season just the way you want  
Full subscriber privileges (except seat retention)

=

**eZseat Club**  
Combines all the benefits of subscribing with the complete flexibility of buying single tickets  
Membership costs from \$50  
Buy as many or as few concerts as you want  
Access to the best available seats, at a discount

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## The Pricing Toolbox

Leveraging additional income

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### Ancillary income

- Tickets as a loss-leader?
- Premium seats and premium packages
- Leveraging additional income through membership and donations



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### Premium Packages – and more



**SMÅKLIG FÖRESTÄLLNING**  
MED FYLLIGA TENORER OCH BESKA SOPRANER




**GRILL** BRÖLLOPSFEST PÅ MALMÖ OPERA  
VI BJUDER PÅ ETT ÅTERBESÖK



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### Maximising income from the sales process...



Shopping Basket

**We Will Rock You**  
Saturday, 6 July 2011 - 7:30pm  
Birmingham Hippodrome  
VIP Packages available to book online:  
[add restaurant reservation](#)

**Thank you for your donation**  
You can increase or remove this suggested charitable donation of £1.00. If applicable, please remember to box the Gift Aid box below. Your donation supports our work as an unincorporated Independent Charitable Trust (not a CIO/CAI). Thank you for your support.

**Gift Aid**  
I am a UK taxpayer, and I want Birmingham Hippodrome Theatre Trusts to treat this all donations I make from the sale of this donation, and any donations I have made since April 5, 2000 as Gift Aid donations. [Gift Aid my donation](#)

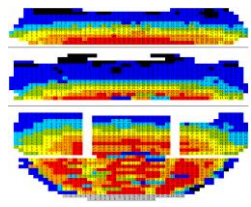
Subtotal	£43.00
Transaction Fee	£2.10
<b>Total*</b>	<b>£45.10</b>

**+ membership?**

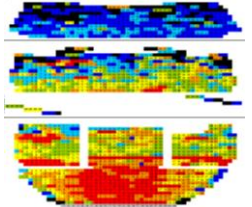
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### Leveraging the value of your best seats: are you maximising income from all sources?

HotSeat Index: Subscribers



Hotseat Index: Total Donor Value



Average Total Patron Value (TV) and membership donations since 2009:

	\$18,000+
	\$9,000+
	\$6,000+
	\$4,500+
	\$2,500+
	Less than \$2,500

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## Revenue Management

### Defining Revenue Management

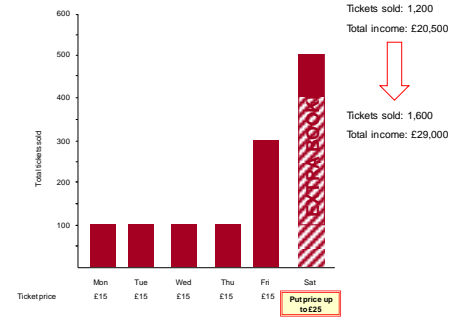
*"Revenue Management ensures that companies will sell the right product to the right customer at the right time for the right price"*

Robert Cross

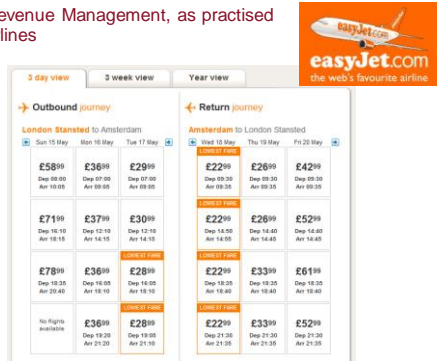
➤ RM was designed to address the perishability of inventory, i.e. once the show has started, you can never sell the ticket again. This includes reducing prices to stimulate low demand as well as increasing prices to exploit high demand.

➤ DYNAMIC PRICING: the adjustment of pricing variables over time in response to emerging and changing patterns of consumer demand, i.e. charging different prices for the same ticket at different times.

### Revenue management: optimising volume and value



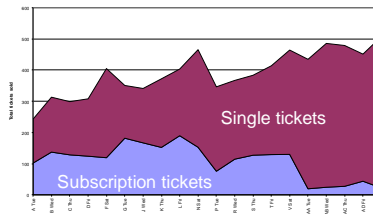
This is Revenue Management, as practised by the airlines



### Revenue Management using subscription



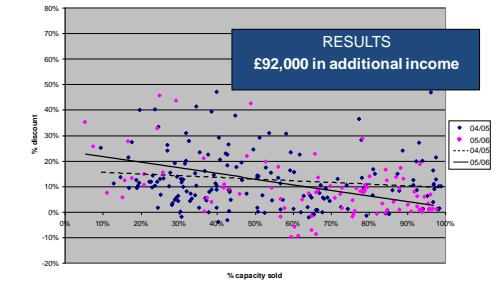
- Subscription prices are lower
  - For performances earlier in the run
  - For weekday evenings



### Dynamic discount control



- "All discounts are subject to availability"



## Dynamic Pricing

TICKET INFORMATION		PRICES DO NOT INCLUDE APPLICABLE TAX	
Performance Title	Price Code on Calendar	Per Seat	# Seats
Musical Price Range 1	M1	\$76	\$66
Musical Price Range 2	M2	\$96	\$86
Musical Price Range 3	M3	\$106	\$96
Play Price Range 1	P1	\$65	\$55
Play Price Range 2	P2	\$85	\$75
Play Price Range 3	P3	\$95	\$85
Stubs	SD	\$70	\$60

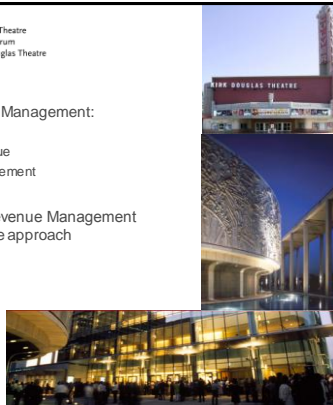
  

Special Savings Opportunities		Price Code on Calendar		Per Seat	# Seats	# Seats
Members' 4-For-1 Ticket Offer	Look for ▲ on the calendar	2 for tickets				
Family Experience	All shows with purchase of adult ticket	\$36 for all children up to 18 years old				
Members' Musical Performance	MMP	\$50	\$50	\$35		
Senior Tickets™ - Musicals	SSM	\$55	\$55	\$40		
Senior Tickets™ - Plays	SSP	\$55	\$45	\$30		
Members' Shakespeare Ticket Offer	Look for ● on the calendar	Save 50%				
Student Tickets™ - Musicals	SSM	\$29 for all seats				
Student Tickets™ - Plays	SSP	\$25 for all seats				
Stubs Sunday Evening	SE	\$60	\$30	\$20		

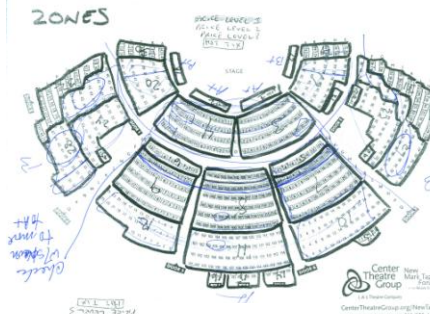
\*Senior pricing available to patrons 65 years of age and over. Non-seniors and non-members may attend SSM and SSP performances at the M1 or P1 price. \*\*To qualify for student pricing you must be a full-time student, under the age of 26, with valid student ID.



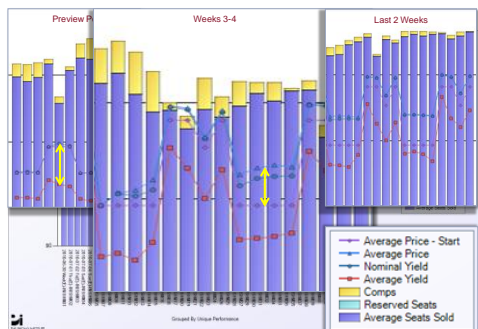
- Multi-faceted Revenue Management:
  - Zonal business rules
  - Leveraging donor value
  - Dynamic price management
  - Inventory control
- Now starting to use 'Revenue Management Application' to fine-tune approach



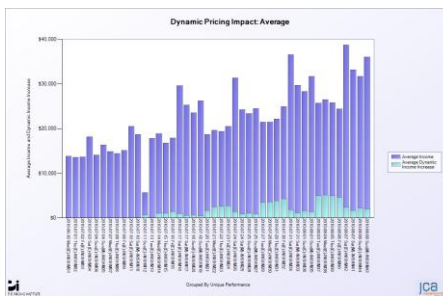
## Introducing zonal business rules



## Dynamic pricing using the Revenue Management Application



## RMA: Income and impact of dynamic pricing



## The Results



- Mark Taper Forum: 'Lieutenant of Inishmore'
- Dynamic pricing, created additional income of \$69,000
- Ahmanson Theatre: 'God of Carnage'
- Dynamic pricing added over \$1m to box office income by press night
- Includes additional income from last two weeks of run, initially held back from sale and now at a higher price

## Pricing Principles for the Arts

- People exchange money and time in expectation of receiving **value** in return
- That value is more **perceived** than real
- Perceptions of value are almost **unique** to each customer for each event
- The key to unlocking value is **price differentiation**
- Price differentiation allows organizations to achieve **multiple objectives**
  - optimize volume of attendance
  - promote accessibility
  - maximize income
- Differential prices should be **value fenced**
- Cultural organizations have an enormous range of variables (value fences) available to adjust prices in order to achieve multiple objectives.
- That flexibility is multiplied by the application of revenue management and dynamic pricing tactics

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Want to learn more?

[www.baker-richards.com](http://www.baker-richards.com)  
[tim@baker-richards.com](mailto:tim@baker-richards.com)

Discussion forum:  
**LinkedIn**  
Group: thinkaboutpricing

Free pricing resource:  
[www.thinkaboutpricing.com](http://www.thinkaboutpricing.com)

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The image shows two screenshots. The top one is a LinkedIn group page for 'Thinkaboutpricing'. It features a header with the group name, a profile picture, and navigation options like 'Discussions', 'Members', 'Promotions', 'Team', 'Manage', and 'More'. Below the header, there's a section for 'Most Popular Discussions' with a post titled 'A clear discussion of the supply and demand and implications for price' by Tim Richards. The bottom screenshot is the website for 'The Pricing Institute', which is described as 'THE RIGHT WAY FOR THE ARTS'. The website has a navigation bar with 'Home', 'About', 'Pricing', and 'Contact Us'. The main content area has a heading 'Why think about pricing?' followed by several paragraphs of text discussing pricing strategies for cultural organizations.