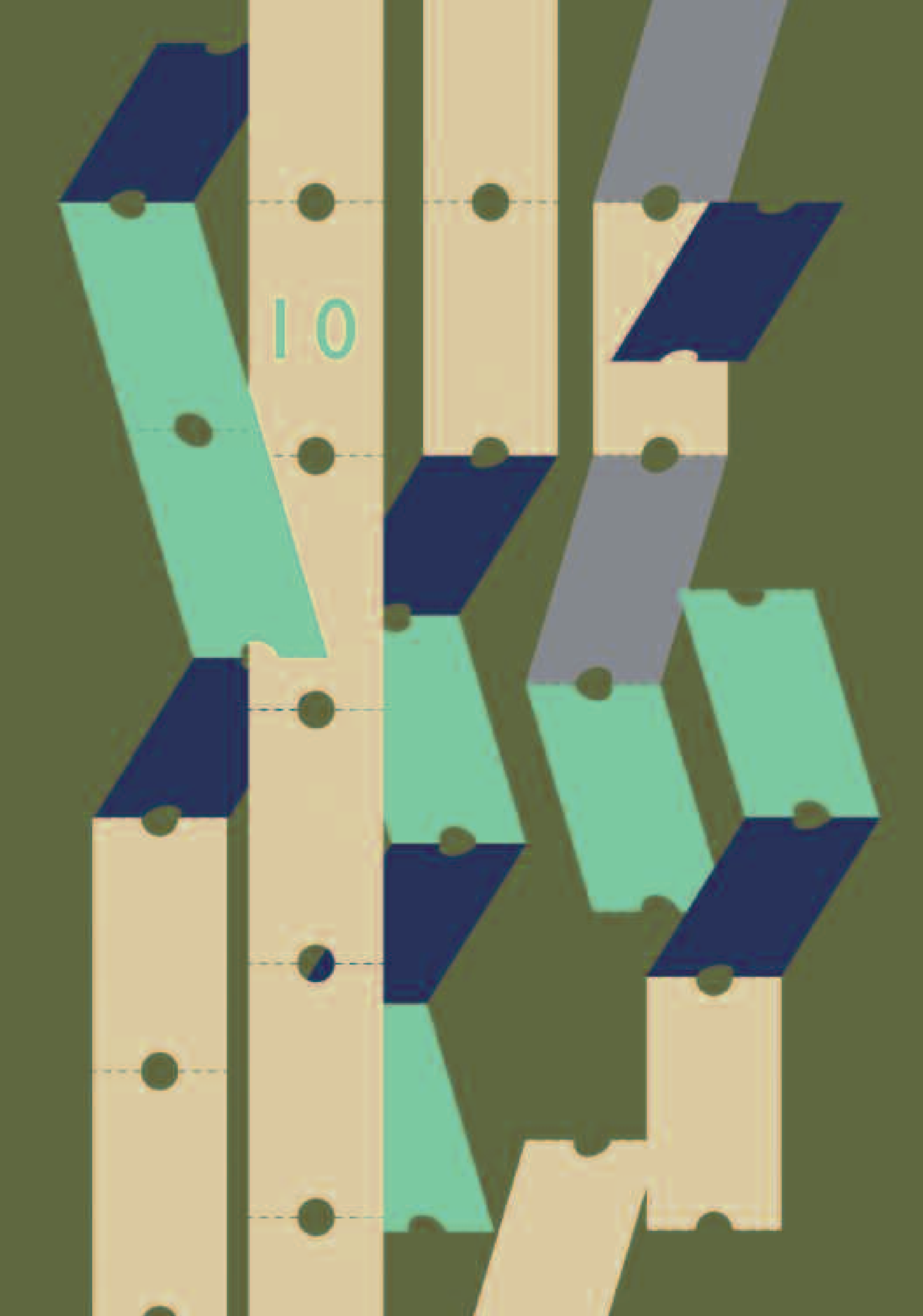
Chapter Two

Can we raise our prices please?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If pricing is vital in promoting institutional value, in an age when many products, from cars to computers, are valued as enhancing experiences as much as practical and useful objects, then arts organisations and venues clearly need to take it seriously. And that means making it part of their overall strategy and vision.

In this chapter, Angela Galvin argues that the purpose of a pricing strategy is to 'exercise some control over where we position ourselves and the impact this has on our artistic vision'. Judgements are still often made on the basis of price, and pricing in the arts can be fearsomely complicated – and controversial.

> The theatre world is not normally silent or bashful… So why is it so silent when it faces the highly serious allegation of ripping off consumers and creating barriers to access?
> *Select Committee Report on Theatre, **The Independent**, 26 March 2005*

So, not only is setting a pricing strategy a crucial financial and management tool, but it is also an essential step in persuading the public and the media of an organisation's integrity and value – 'pricing is at the fulcrum of the balance between artistic expression and audience expectations'.

Taking that step, however, requires a rigorous analysis of the audience and its needs and thus a firm commitment to the kind of research and development that, paradoxically, many subsidised organisations are not yet adequately funded to carry out.

Can we raise our prices please?
Building towards a viable pricing strategy

Angela Galvin

Declining attendances, ageing audiences, economic uncertainty, deep-seated complacency. Is the picture really that grim? This chapter examines some of the internal and external forces that influence pricing decisions in the arts, suggesting that while pricing cannot exist in isolation, pricing strategies can provide a solid platform from which to interrogate the dynamic between the expectations of business stakeholders, artistic expression, audience demand and a sustainable future.

> Britain's Royal Opera house must… draw new patrons with lower prices and stop giving free tickets to London's glitterati.[1]

Many people assume that, once we've discussed the Royal Opera House and the West End, the issue of pricing has been pretty much explored. The entire vibrant and diverse cultural sector is misrepresented by such damaging generalisations and by unfair comparisons with other sectors in the economy. The demands – to reduce prices to attract new audiences, to give fewer rewards to core audiences, to charge less for programmes and drinks – are echoed across the sector and around the country. Communicating to artists, audiences and funders the true cost of responding to these demands is a complex challenge. It requires a strategic response.

We might start with a simple question: why do we charge for admission?

> There are some things best left to the market, and the theatre is not one of them. Standing in a queue for Tate Modern, 2,000 of us happy in the rain, I wondered why waiting to go into a theatre never felt like this: people of all ages and professions with only one thing in common – none of us paid to get in… No-one seems to think that modern art for free is ridiculous – why cannot theatre be the same?[2]

Through pricing, arts businesses can, in theory, maintain control over their programming, their relationships and their future. It is a fundamental management tool. Yet arts organisations have pursued paradoxical strategies:

- spending more on the spectacular and charging less at the box office
- providing an infrastructure for creative expression while eschewing commercial best practice, and
- delivering pricing-led audience development initiatives for public funders, while facing real cuts in levels of public investment.

The purpose of a pricing strategy is to exercise some control over where we position ourselves and the impact this has on our artistic vision, on public perceptions of 'value for money' and on our future. That is why the term arts *business* is used throughout this chapter.

Establishing a position on pricing (which will not be the same for every organisation) requires that we confront five key strategic issues:

- profitability
- sales
- cash flow
- audience growth
- value/quality.

Links between cost and value

In other areas of the consumer economy, producers understand that investing in quality is not only measurable but can also lead to cost savings. At the same time, consumers are moving away from the association of low price with poor quality. Nevertheless, the perceived link between price and value remains, as illustrated by the infamous Wisconsin knife sale.

In the late 1960s, a large department store in Madison, Wisconsin held a special sale on electric knives. Although they were priced very low, surprisingly few knives sold. The store then raised the price a little, and the knives quickly sold out. What could explain this strange phenomenon, which clearly is not what a demand curve suggests should happen?

> The most likely explanation for this event is that people often make judgments about the quality of items based on their prices. Usually, high-quality items are expensive and low-quality items are cheap. Thus, when people see an item that appears unusually cheap, they suspect that the item has low quality. In the knives example, people must have thought that something was wrong with the knives because the price was so low. When the store raised the price a bit, people no longer thought that the deal was too good to be true.[3]

Whether true or apocryphal, this story highlights the importance of three key and interdependent elements:

- setting prices
- quality control
- managing expectation.

Arts businesses rarely communicate the strategy, rationale and practical considerations behind their pricing decisions. What customers see is ticket-level information: how much it will cost to attend a particular event. They may assume that the best seats are the most expensive or speculate that reduced prices signal that the venue is trying to whip up an audience. Either way, they will certainly be looking for a good deal. Arts businesses are operating within an environment where the notion of 'value for money' competes with the traditional perception that a relatively high price is a sign of good quality.

To be effective in this highly competitive marketplace, pricing strategies should be informed by programming and audience development plans; offer a workable balance between conflicting pressures, say between artistic and commercial imperatives; and recognise the perceived difference between cost and value. Our responses to these strategic issues should enable us to:

- recognise the difference between cost and value
- establish the best fit from a cost-plus or value-based pricing strategy
- build profits rather than cut prices.

Assessing audience behaviour

A strategic approach to pricing must focus on longer-term objectives that, while not necessarily transparent to our audience, must be crystal clear to us and our organisation. So, for example, if we all buy in to the idea of rewarding our audiences for 'good behaviour', we must be able to define precisely what this means. Is it advance booking? Is it loyalty? Is it filling empty seats at the last minute? We can safely assume that most arts venues would prefer their audience to visit several times each year, to book in advance and to pay the premium price for their tickets. If this assumption is correct, the Theatre Audience Survey 2003/2004[4] will have gained mixed reviews from West End theatre managers.

Good news from the survey includes the identification of a loyal group of regular visitors, with theatregoers visiting the West End 6.2 times per year on average and just one in five of the sample attending only once during the survey period. The feedback on advance booking is less reassuring, with one in every four tickets booked on the same day as the performance, and almost half of all bookings being made during the week preceding the performance.

Also of concern is the finding that, although satisfaction with trips to the theatre is high, with 61 per cent of theatregoers saying that in terms of overall enjoyment their trip was 'very good,' only 43 per cent felt that the value for money for their trip was also 'very good'. Fifty-seven per cent of tickets are booked at full price, while a quarter of theatregoers purchasing reduced-rate tickets would not have attended had only full price tickets been available. Various scenarios might be extrapolated from these findings:

- one where a group of aficionados attend avidly, the majority enjoying the experience – and what's more, paying full price for their tickets
- one where arts businesses have a loyal – perhaps shrinking – core audience and a canny – perhaps growing – number of people navigating their way to cut-price ticket deals across the whole leisure offer, so if one artform is too expensive they will go elsewhere
- one where the trend for last-minute or spur-of–the-moment leisure decisions cause cash flow problems and longer-term challenges in maintaining a sustainable artistic programme.

And so on. The more questions we ask, the more fine-grain detail we can incorporate and the more likely we are to plan our responses than to make knee-jerk reactions to these and other scenarios as they arise.

Establishing a pricing strategy requires the collection and analysis of supporting information that, at the very least, covers:

- calculations of ticket prices based on covering the fixed and variable costs both of individual productions and the whole season of work
- calculations on the value or benefits for audiences:
  - what benefits audiences gain from attendance
  - the criteria our audiences use for buying decisions
  - what value audiences place on receiving the benefits we provide
- benchmarking with the competition, ranging from theatres within a certain drive-time through to the cost of dining out at a mid- to high-range restaurant.

Simply gathering the information necessary to build a pricing strategy will create a firm basis of knowledge, understanding and recognition.

Researching a pricing model

The process of researching, developing and applying a relevant strategy will create the framework within which artists, audiences and arts businesses can plan for a financially sustainable future, grow and diversify audiences, and increase the quality of and engagement with the artistic programme.

Given that a pricing policy is only as strong as the artistic and audience development strategies, all of which should inform each other at any planning stage, it is vital to carry out effective research into product, audience behaviour, and the cost *and* value of everything we do.

Asking the right questions, challenging orthodoxies and suggesting tactics are all building blocks for a robust and effective pricing strategy that unpicks the true cost and interrogates the value and benefits of our work. A strategic approach to pricing enables us to secure income and profit artistically as well as financially. And it builds a case for those areas of our work that require public aid because they meet a social and political agenda as well as an arts business one.

In research terms, a pricing strategy can begin by assigning a figure to every facet of an event, including the physical production, marketing, front of house overheads and other less visible elements that all contribute to the event being staged and audiences being accommodated. This exercise generates the total price tag. Once we know the cost of everything, we can start to assess its strategic position and its market value. So, for example is an event going to be a loss-leader to attract new audiences? Or is it an expensive event for core audiences?

Developing a coherent pricing model is important for both artistic and commercial reasons. If pricing decisions are well presented, they can communicate some unambiguous messages to our audiences about the quality of the work they will see, persuading new and core attenders and generating the revenue that will support further artistic endeavours.

The importance of identifying our strengths and putting a value on them can be illustrated by Sheffield Theatres' response to the artistic and audience dynamic of the Crucible's unique performing space.

> [The Crucible's] design was directly influenced by the ideas of 'theatre in the round' developed by the director Tyrone Guthrie, whose associate Tanya Moiseiwitsch worked with the architects, and it remains one of the most exciting theatrical spaces in the country. A central thrust stage is embraced on five sides by a steeply raked bank of seating for 1,000 people… achieving the intimacy, immediacy and flexibility which Guthrie advocated.[5]

When the theatre space itself gets such good reviews, there is an absolute responsibility to maximise its potential.

In 1971, when the Crucible first opened, the configuration around the thrust stage was explained to would-be audiences with the legend, 'No seat is more than 60 feet from the stage.' In the intervening years, directors and audiences lost confidence in that configuration and productions were directed end-on, as though the Crucible were simply a misshapen and misguided proscenium theatre.

By 1996, the auditorium had been priced to reflect the buying patterns of audiences. A funnel to the front of the stage was priced higher, implying that these were the 'best seats'. Not unusually, these 'best seats' sold first while the sides became the cheap seats and were rarely sold to capacity. Directors and actors had no incentive to play to all five sides, so the best seat/cheap seat pricing model actually directed the artistic vision, and eventually became a self-fulfilling prophecy – the space simply didn't work for artists or audiences.

The decision to go back to the original ethos was taken from a joint artistic and marketing perspective. The idea was to celebrate the strengths of the playing space and of the auditorium: to direct shows to all sides and to sell seats at the same price on all sides. To support this endeavour, a single price has applied across the auditorium since 2000/01.

Initial audience resistance was overcome by artistic delivery on the marketing promise that theatregoers would have a different experience but one of equal quality throughout the auditorium. There are targeted discounts, but there is no premium pricing for any area. The artistic delivery of a pricing promise made a significant contribution to an increase of 71 per cent in Crucible audiences between 2000/01 and 2004/05. Of course, the Crucible's thrust stage affords a very particular pricing potential, but the message of consistency holds true for any arts venue.

The strategic lowering of prices can also be used to attract price-sensitive new audiences in a planned way – preventing the kind of wholesale discounting or inconsistent pricing that drives down income, dilutes perceptions of quality and value, and makes anyone who has paid full price feel like a sap. Since 1998, the introduction of targeted discounting in Sheffield, including £1 public dress rehearsals, cheaper previews and Young People's Nights, has been rewarded in a variety of ways, including:

- generating valuable word of mouth through higher 'front end' audiences
- factoring in low-price performances at the earliest budgetary stage
- engaging price-sensitive audiences with scheduled development initiatives
- meeting stakeholder demands for price-led initiatives
- testing assumptions about levels of risk, motivation and price sensitivity.

The learning from this exercise can be applied in a wider sense by ensuring that pricing strategies examine and respond to five key variables:

- image and market positioning
- strength of the benefits for customers
- rewarding 'good behaviour' (for example, loyalty or advance booking)
- acknowledging price-driven audiences
- incorporating strategic responses rather than panic discounts.

A long-term view of audience growth, artistic development and business sustainability is made possible through analysing the impact of a pricing strategy in five key areas:

- maximising profitability
- increasing sales
- controlling cash flow
- planning targeted audience growth
- increasing our perceived value.

At the heart of all this lies the need to invest in the quality of artistic programming and audience development. If a performance, an exhibition or a screening falls short, the pricing strategy will need to demonstrate virtuoso repackaging in order to get people to attend, let alone buy premium tickets. That's no way to express a vision, entice an audience or, indeed, run a business.

Whereas in 2001 it might have been legitimate to ask why theatre wasn't free when people didn't pay to see modern art, we are now seeing the challenges as well as the benefits of free entry to our galleries and museums, with special funds being sought in order to fund new acquisitions to maintain the interest of new audiences. Across artforms, new and exciting work can also be the most financially risky. Without ticket revenue, the risk is increased. In that respect, pricing is at the fulcrum of the balance between artistic expression and audience expectations.

The right kind of investment

There is no simple answer to the question, 'What is public funding paying for?' It could be for the audiences, subsidising ticket prices so that the huge number who can't afford top-price tickets are not disenfranchised. It could be for the art itself – bringing an international touring exhibition to a gallery or museum, or allowing larger casts in theatrical productions. Or it could be for supporting infrastructure, guaranteeing up-front, in-the-bank money as opposed to income generated at risk against matured events, projects or publications. A considered pricing strategy can satisfy all three answers in a virtuous cycle of art, audiences and sustainable forward planning.

Since 2005, the Audit Commission's Comprehensive Performance Assessment has focused the attention of agencies investing public resources on delivering 'improvement of public services; as seen from the perspective of users; while providing value for money for taxpayers; targeted and risk proportionate; and delivered in partnership.'[6]

In organisational terms, delivery requires the investment of resources into developing artists, staff skills, facilities, marketing and support materials, research and evaluation. And of course, every responsible arts business should be making this happen. Yet, strategies for redressing long-term imbalances, often in sensitive areas, need to be thoughtful, informed and consistent. This is something that in most other sectors would be seen as requiring a massive and long-term process of research and development (R&D).

At a time when the European Union is urging all European businesses to increase their (R&D) expenditure,[7] and there has been a call for government resources to be channelled into research and education, the arts have made scant progress in increasing public and private investment beyond ad hoc initiatives. In other sectors, thorough R&D is seen as essential for long-term financial survival. The arts are not alone in finding it difficult to free funds for large R&D exercises that will not necessarily lead to commercial gain, but we may be unique in embarking on such a programme in the knowledge that our resources to do so are, at best, inadequate.

How can arts businesses match their funders' expectations? If we accept 'audience diversification' and 'social inclusion' as examples of areas for improvement that are not only desirable but fundamental, we have to seek clarification on what support will be available.

The policy statements outlining the position of the Museums Libraries and Archives Council and Arts Council England both imply that in pricing terms these activities will be 'loss leaders', with prices set so low that they act as a promotional device and draw new audiences into the sector. But lowering prices to draw in an audience is a one-off tactic rather than a strategy for artistic development, audience growth and business sustainability.

While such tactics can be employed on an ad hoc basis, their impact is greater as part of an operational plan that employs them strategically. Yet, arts businesses tend to focus on just one or two pricing options. A wider pricing strategy would audit current use, identify over-reliance and judge the relevance from the full range of pricing tactics available.

A more confident approach to ascertaining and communicating the worth of our sector to audiences, communities, business and funders can be established by considering our relationship to eight general statements:

- pricing impacts on control, sustainability and advocacy
- pricing dovetails with the social inclusion and cultural diversity agendas through price-led audience development strategies
- preparing a strategy helps us take informed pricing decisions based on the true cost of each production, identifying where profits lie and where subsidy is required
- pricing strategy creates a solid and workable framework while being flexible enough to accommodate variables between productions, audiences and stakeholders
- awareness of the full range of variables informs our choice on cost- or value-driven planning and audience development
- the role of the strategy is to plan the implementation of pricing tactics by design rather than default
- the ability of arts businesses to generate their own revenue is central to growth, development and sustainability. This is

particularly the case as we find ourselves facing immense pressure to devise and implement pricing strategies that balance the demands of funders, the desires of consumers and the struggle for survival

- regular review of the strategy, using customer information, our own experience and some market research, enables us to work towards a sustainable future.

Making art, losing money?

Within the wider debate about the degree of influence and control sought by public funders in return for relatively low levels of investment, there is an issue we've been hesitant to name: the close relationship between making art and losing money.

This problem is put into sharp relief by two of the UK's leading Shakespearean companies. In January 2006 it was reported that the Globe theatre had returned a pre-tax profit of £1.5 million, its tenth consecutive year in the black – without any public subsidy. In the same report, the Royal Shakespeare Company, which receives almost £13 million from Arts Council England and aims to break even, stated that the company could not operate without subsidy. Yet, with standard ticket prices ranging from £5 to £31 at the Globe, and from £5 to £42 for the RSC in Stratford, we might reasonably expect that the RSC had the greater prospect of ensuring sustainability through its box office. The complicating factor is that economies of scale rarely apply to theatrical production.

> While the Shakespeare Globe stages six productions between May and September each year, the RSC mounts an average of 30, runs a permanent company of actors and operates in three theatres in Stratford-upon-Avon and three in London (currently). The RSC also sends out tours to the regions and internationally.[8]

And so the more work created, the higher the costs and the greater the pressure on finances.

Pricing strategies won't guarantee a grant of £13 million, but the underpinning research and analysis can reveal precisely who 'subsidises' the cost of delivering an artistic programme. It can reveal the true cost of complying with funding criteria. It can help tease out the difference between 'subsidy' and 'investment'. And it is the key to taking control of our position within the arts funding landscape.

Historically, arts businesses have been unable to accumulate financial reserves to draw on for R&D or to mitigate the risk of, say, commissioning a new work. Alternative sources of support, such as Lottery and corporate funding, look set to be diverted elsewhere at least until 2012. But perhaps the severest challenge to arts sustainability is more immediate and comes from the stakeholders whose demands are the greatest.

Local authorities and Arts Council England set measures called key performance indicators (KPI) and these currently imply a direct correlation between 'subsidy' (or more accurately, 'investment') and attendance by calculating the ratio of box office income to public funds per seat sold.[9] So, for example, at Sheffield's ratio the case would be that without public investment each £10 theatre ticket would have to be priced at £15 in order to make a revenue contribution equivalent to the lost subsidy.

From this perspective, the most important function of public funding seems to be to subsidise ticket prices. In fact, the KPI reports from local authorities and the Arts Council 'double count' the impact of their investment, through monitoring levels of activity, artists, audiences, diversity, education, governance, trading and even customer satisfaction. Arts businesses would be well advised to factor all of these elements into their pricing strategies as risk mitigation should public subsidy be threatened.

Whether or not the market would bear increased ticket prices, there are other arguments about the role of theatres, museums, galleries and other arts businesses in adding value and excitement to the cultural life of communities, cities and regions: by producing excellent work, engaging with local communities, running learning programmes in schools and building audiences. The sector has also engaged with the wider social and political agenda, with economic and capital regeneration schemes and with ad hoc initiatives. Again, the Theatre Audience Survey is a useful template for the layers of information required to underpin a strategy. Perhaps its most relevant finding here is that the average expenditure per theatregoer as a direct result of the theatre trip is £116, with travel, food and accommodation being the major additional costs. If, as the Arts Council's economic surveys suggest, arts businesses can demonstrate just a fraction of that economic impact, the return on public investment is evidenced and the case for public funds reinforced.

The importance of a pricing strategy

This chapter is not an argument that the arts are owed a living from the public purse, rather a discussion of the tensions of demonstrating a return on investment to public funders, representing 'value for money' to audiences and expressing a commitment to creative development. The arts economy is, essentially, fragile, regardless of scale. In this context, engaging with the political and social agendas for economic regeneration, destination marketing and social integration can strengthen the perceived value for money of public investment in the arts. But there is usually a funding gap between public investment and organisational need. Arts businesses have to make up the shortfall and one of the key tools open to them is price.

Without reserves and with fewer exceptional awards, arts funding has reached a defining moment. In the past, our decisions have been influenced by the need for accountability and by gratitude for public funds. The 'efficiencies' driven by stand-still (or worse) public funding have created a sector well practised in cost management. Now arts businesses need to meet head on the challenges of effectively managing both costs and revenue. The ability of arts businesses to generate their own revenue is central to their growth, development and sustainability, as we are under immense pressure to devise and implement strategies that balance the demands of funders, the desires of consumers and our own struggle for survival.

As the public sector becomes engaged in the 'improvement' agenda of the Audit Commission, arts businesses need to confidently assert their own measures of successful investment. We need to influence the key performance indicators, particularly those that affect the fundamentals for business management on which public partnerships are being judged: new products and services; target ages, consumer segments and income groups; staff skills and capabilities; capital developments, and so on.

To call public funding 'subsidy' rather than 'investment' assumes that arts businesses are, at best, valued and valuable but intrinsically unviable. Greater awareness of pricing and the development of a coherent pricing strategy may not just help arts business to move away from dependency on shrinking public funds. Paradoxically, it may also gear the sector up to argue for increased and sustained public investment with more confidence and greater clarity.

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Clear about pricing
Cambridge Arts Theatre's fair prices

As far as the paying public is concerned, Dave Murphy's overriding aim as chief executive of Cambridge Arts Theatre is to provide them with 'a good programme priced fairly'. To be seen as fair, the venue tries to set out its prices in as clear a way as possible – clear in the dual sense of *comprehensible* and *transparent*.

Only twice in the three years he has been in post has Dave tried a two-for-one deal, and would only consider it if a production was going disastrously. Instead, there are two pricing tiers – three if you include the annual panto – and any product the theatre takes on is crowbarred into one or the other. More mainstream work, such as *The History Boys*, is sold for the highest possible income, though not at the expense of alienating the audience. A ticket for a production starring Felicity Kendall could easily sell for £40 or more here, but Dave sticks to the regular price bands of £10, £20 and £30. A lower range of prices – £10, £15 and £20 – is offered for subsidised or more experimental work. In both cases, the number of seats will vary within bands, depending on predicted appeal – though, once set, they won't vary, whatever the sales. So, when a production needs longer-term audience development to sell or is likely to appeal to a poorer section of the audience, half the house may be available at £10 with only a few £15 and even fewer £20 tickets on offer. The vital issue, for Dave, is that *price bands remain the same*. It would, he feels, devalue the show to sell it at, say, £10, £12 and £15 instead.

The reasoning behind the setting of particular prices is evident to the customer. The brochure is 'transparent', Dave claims – anyone can work out what the deal is and see that it is fair. Partly as a result, there is little price resistance, though a few students moan (there are no concessions for them). There is more concern about where to park or eat than about prices. Dave has an equally transparent approach to booking fees, which are levied simply to cover the cost of sales rather than as part of a deal with promoters.

There is, however, one downside to such a simple and clear pricing strategy, Dave admits, in that it makes it that much harder to put prices up: switching to £11, £16 and £21 would seem – at least initially – 'a bit odd'. As the National Theatre would agree, simplicity comes at a price.

With thanks to Dave Murphy
Cambridge Arts Theatre, www.cambridgeartstheatre.com

Maximising local interests
Pentabus and rural pricing

Just because ticket prices are generally lower in the country than in the city, it doesn't mean that pricing strategies have to be unsophisticated. A couple of years ago, Pentabus Theatre ran an outdoor show, an adaptation by Bryony Lavery of Mary Webb's novel *Precious Bane* which featured eight professional actors and 180 singers recruited from the local community. These were formed into three choirs, one for each of the three weeks the show ran. Box office was handled by the Music Hall, Shrewsbury's sole venue for professional theatre. In terms of selling tickets, the choirs presented a problem, as Pentabus director, John Moreton recalls: 'Participants always expect their friends and family to come free.'

The solution was to set up a Choir Members Offer scheme, where each singer was offered four tickets for family and friends at a reduced rate of £5, which they could purchase through the Music Hall box office using a secret codeword. Singers were also allowed a free ticket to attend a show they weren't singing in. The full pricing structure was as follows:

Tues £8/£6 (choir offer applies)
Weds/Thursday £10/£8
Friday £12/£9
Sat/Sun £12 across the board

This stepped pricing promoted attendance on the least popular nights, a policy reinforced by dropping concessions on Saturdays or Sundays. (This last tactic has to be understood in a context where, as John explains, some of the smaller theatres in the well-to-do market towns never offer concessions to pensioners 'since these make up 90 per cent of their audience and are the richest section of society'.)

The results were good. The average ticket sale was £9.20, and an astonishing 77 per cent of the audience were new attenders, according to the Music Hall database.

With thanks to John Moreton
Pentabus, www.pentabus-theatre.co.uk

Starting off cheap but getting expensive

Shifting perceptions of value at The Place

The idea came to John Ashford on an Easyjet flight to Barcelona. The venue he continues to direct, The Place (in Euston, central London), was about to undergo a major refurbishment and an Arts Council-run stabilisation programme. By the time the venue reopened, in autumn 2001, an innovative new pricing strategy was in place.

The Place is a small studio theatre, with a capacity of almost 300, which shows, almost exclusively, contemporary dance performances. No seat has any great advantage over any other in terms of sightlines and none are allocated. So, the question is: how do you increase yield through the level of price differentials in such an auditorium? The answer is: by finding something other than the quality of the seat to base different prices on. Remembering his airborne epiphany, John, with the support of his marketing manager, Tim Wood, decided price should be shifted on to *when the customer books their seat*.

Rather than us imposing a value on each and every performance, according to the price you wanted to charge for it, we wanted to shift that perception of value on to the person buying the ticket.

Establishing the new strategy

Out went the old one-price structure (£10 or £12 with £8 concessions), and in came five new prices: £5, £7, £10, £12 and £15. The venue explained that there would always be at least twenty tickets at each price for each performance. The sooner you booked, the more likely you would be to secure the cheapest, £5, ticket. Leave it until the last moment to decide to come and you would almost certainly have to pay £15. The idea, John explains, is to attract people with the low prices on offer – and then sell as many tickets for the highest price possible.

The £7 ticket is for the usual concessions but unusual in that it is not the cheapest offer – partly because not all people eligible for concessions are actually less well off. The £10 ticket has to be bought at least 24 hours in advance and cannot be bought at the door. Given that, at The Place, as much as 60 per cent of sales are from ‘walk ups’ (people just turning up on the night), the fact that the £10 ticket cannot be bought on the door is significant. The second highest-priced ticket, at £12, can be exchanged for credit towards another performance if the customer is unable to come to the performance. Even more flexible is the top-priced ticket, £15, which can be exchanged or refunded; interestingly, John remarks, few take up that offer, so making it is easy.

All five prices are offered for all performances, no matter how celebrated or how untested the performers. John feels it’s invidious to price down riskier work: ‘We don’t want to say, “It’s only a fiver for this performance because it’s not very good”.’ But there is obvious flexibility in the structure that will allow the venue to sell more of one price ticket than another. This can have a significant impact on yield, as Tim explains:

With the same headline prices, we sold out two performances, completely sold out. One netted under £2,000, a yield of about £6.50, and the other was nearly £3,200 – yield: £10.88. We’re approaching a 50 per cent increase in yield with the same prices and the same number of sales.

The success of the strategy

If the purpose of the strategy could be seen as a way to increase income, it might also have been a way of securing income earlier. Yield did go up by £1 a ticket on average, but it soon became clear that there would not be a lot more early bookers. Those who book late are doing so for a reason – they are not sure they will be free that night. The fact that they are prepared to pay the premium price for this convenience helps the venue to achieve an increase in yield.

Not only has yield gone up, but the public perception of value at The Place has actually improved since the change in strategy. In 2000, 75 per cent of customers surveyed said they thought that The Place was ‘good’ or ‘very good’ value for money. When it reopened two years later, that figure had gone up to 85 per cent.

There are challenges, however, as Tim points out:

The terrifying thing about this strategy is that, traditionally, you price something and, if it’s not selling, you start discounting and making all sorts of offers to generate some demand for this show *you can't shift. Our pricing works the other way round, it starts off cheap and gets more expensive. So if it's not selling, it's even more terrifying. Though we can, as Easyjet do with their penny flights to Denmark or Spain, send round an email to say there are some new £5 tickets now available.*

Reviewing the strategy

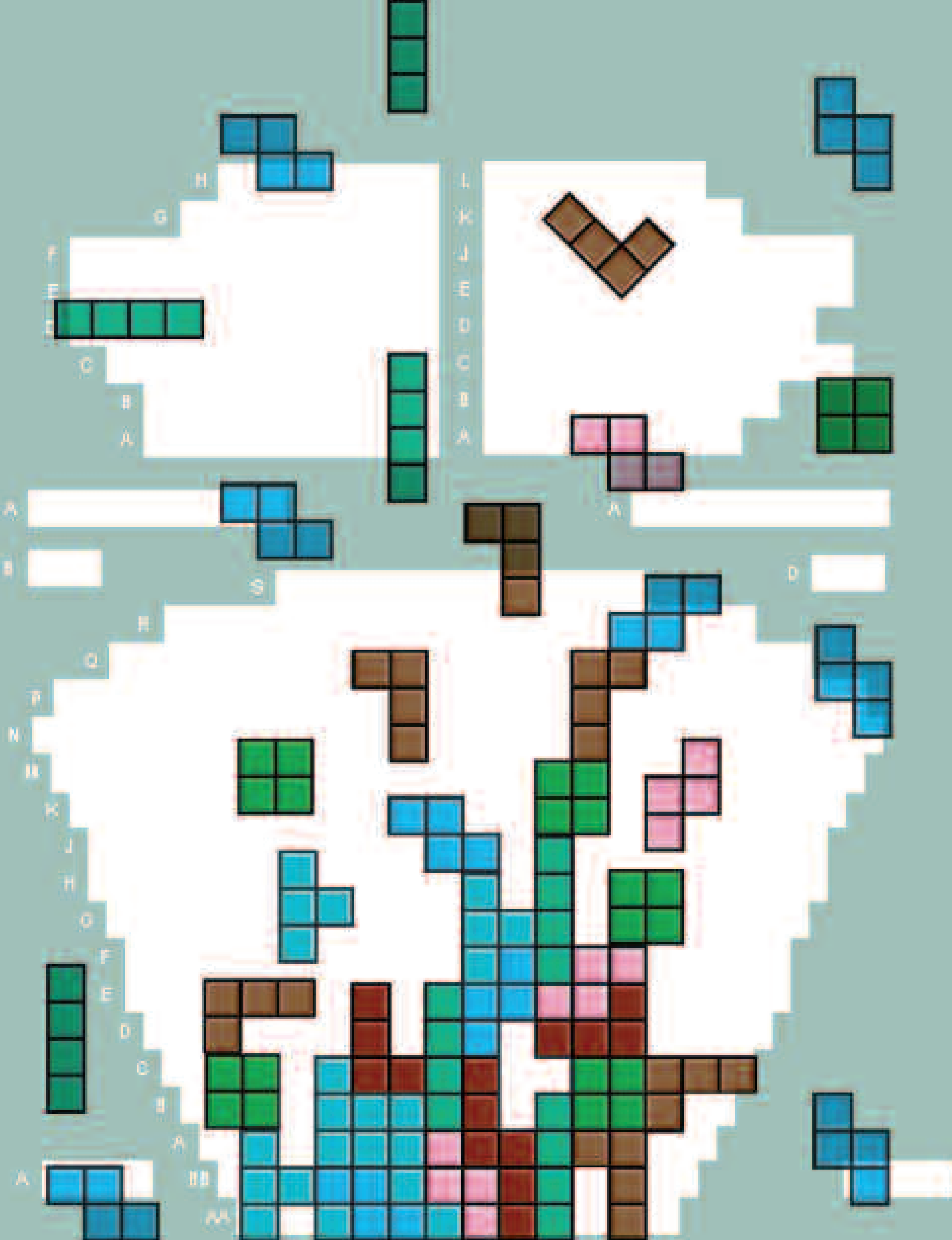
Another current debate is around how to increase prices now that the increase in yield is falling behind inflation. In the first year, net yield went up 12 per cent and, in subsequent years, up 7 per cent, then 6 per cent and last year 3 per cent. So, John concludes:

We've been selling fewer tickets at the cheaper price and more at the more expensive price without the public knowing and have squeezed out probably the highest revenue we can from these price structures. So we are now at the point where need to review.

Perhaps the most challenging aspect of this strategy, however, has been communicating it to a public used to thinking that a higher-priced seat is a better seat. Both John and Tim are puzzled that few venues, even those of the same small scale as The Place, have tried this approach. Until that happens, the box office at The Place will still have plenty of explaining to do.

With thanks to John Ashford and Tim Wood
The Place, www.theplace.org.uk

Chapter Three
The bottom line



What do your customers value about you?

This is one of the fundamental questions that need to be asked before setting a pricing strategy. It emphasises the need to look at both who our customers are, and how their individual circumstances influence their 'perceptions of value'. These perceptions are not just a matter of academic interest, but are of crucial importance for every arts organisation's pricing. Setting prices is not just about balancing the budget, but about addressing a whole range of issues that will require a sophisticated response.

This chapter provides a structured and comprehensive overview of what pricing strategies and tactics are available to organisations ready to set a coherent strategy. There are no set formulas, of course, and no room anymore – at least, so we hope – for the cynical view of one delegate at a marketing conference who remarked, 'I love "best available" – it's the best way to get rid of the crap seats.'

Instead, what Tim Baker offers here is a smorgasbord of pricing options with some pointers on where and when organisations might best use them – and some questions that need to be asked. There are no full-blown recipes for success: every organisation needs its own particular strategy, based on its own particular answers to these questions and to the unique challenges it faces. Here, then, are some tools – but no conclusions.

The bottom line?
Using pricing to optimise sales and income

Tim Baker

Perishability and the peculiar nature of arts pricing

'The problem is that ticket prices are too high. If only they could be reduced, more people would come.' The complaint echoes through press articles, boardrooms and funding meetings. But should price always get the blame for poor audience figures?

Thousands of people pay around £40 every week to watch ninety minutes of football. Would they pay the same to watch contemporary dance? Would they pay £10, or £5, or even £1? In most cases, probably not. But price is not the problem – it's the value they associate with the experience on offer.

We have to face the fact that many people don't think that the arts offer them anything they value, and in that context price is irrelevant. The problem may simply be that people don't understand the value of an artistic experience because it hasn't been communicated effectively, but the fact remains that, unless people value something, the price is irrelevant.

Price elasticity of demand explains the correlation between demand for a product (ie the number of tickets sold) and changes in price, assuming all other factors remain constant. In general, if you charge more for something you'll sell less of it, and vice versa. The underlying logic is undeniable; if you charge less, you'll sell more tickets. But to whom? It is most likely to be to the people who are coming already, because they already understand and appreciate the value of the experience. In other words, most of the people who will benefit from lower prices are the educated middle classes who are already attending. This only becomes a problem when the price is subsidised, which it often is, with the aim of encouraging *all* people to attend. Direct solutions to this problem imply some form of means-testing, which would be contentious and difficult to apply.

While price elasticity of demand offers a persuasive argument that reducing prices will increase attendance, is reducing price the best way to promote arts attendance? Advertising a lower price can work in particular circumstances, but unless the message is carefully managed there is a danger it devalues the experience.

One problem is that those working in the sector can undervalue their ‘product’. This lack of confidence has a number of causes, including an inability to communicate value effectively, and is compounded by the perishability of most arts ‘products’: if you don’t sell it by curtain-up, you can’t put it on the remainder shelves. This often leads to indiscriminate last-minute discounting, undermining perceptions of value among people working in the sector as well as the customers. In other words, rather than simply reducing prices, we need to develop a better understanding of what people value, and better skills in creating and communicating that value. If we can do that, a sophisticated pricing strategy can be used to maximise both access and income.

This chapter summarises seven basic building blocks towards a more sophisticated pricing strategy:

- pricing in the marketing context: pricing doesn’t work in isolation, and the starting point, as in all elements of marketing, is understanding markets
- objectives and strategy: there are three strategic approaches to pricing that can be adopted, achieving a wide range of objectives
- putting a price on value: perceptions of value are almost unique to each customer for each event and understanding them is fundamental to pricing strategy
- the price is right: so how do you set prices? What are the variables that can be adjusted, and how can the arts benefit from revenue management?
- sales promotion: using pricing tactics to increase sales
- implementing pricing strategy: how to present prices and implement pricing on the front line
- basic monitoring: analysing data to assess your strategy.

Pricing in the marketing context

Although pricing can be an extremely powerful tool in achieving a range of objectives, it doesn’t work in isolation. Price is just one of the seven Ps and to be effective it must work alongside the other six strategies for Product, Place, Promotion, Process, Physical evidence and People.

While all of the Ps should work together, the most important for pricing are 'product' and 'promotion':

- product: what is the value that you are offering? Not just the artistic experience, but the venue, catering and so on
- promotion: the value that the product offers is worthless unless you are communicating it in terms of benefits – what will customers get out of it?

Creating and communicating value is fundamental to effective pricing. The starting point for all marketing, however, is understanding your market. In terms of pricing, this means:

- an understanding of price demand, usually based on analysis of price, yield and sales for previous events or promotions
- an ability to segment your current and potential market, principally according to behaviour. The basis of such segmentation is analysis of your customer database. This can be enhanced with primary research on characteristics and motivations
- a more general understanding of the local market context, including market size and demographics
- an understanding of the marketplace: what the 'going out' options in your local area are, as well as the prices of direct competitors (and not just their prices, but also an assessment of the value that they offer).

Objectives and strategy

Arts organisations can use pricing to achieve a wide range of objectives: maximising yield per ticket, increasing volume of sales, or improving accessibility for people for whom price would otherwise be a barrier.

Although pricing tactics are many and varied, there are essentially three strategic approaches to pricing. 'Skim pricing' sets prices high, consciously attracting only a small sector of the market. 'Penetration pricing' does the opposite; prices are set low in order to sell a greater volume. A more common strategy in the arts is 'neutral pricing'. This seeks to take price out of the equation altogether, recognising that, for most people, price is not the reason they decide whether or not to go to the arts.

Three pricing strategies

Skim pricing

Skim pricing involves deliberately setting a price that only a small segment of the market can afford. This requires that customers place a high value on the product. It can be employed where someone else pays (for example, corporate entertainment), with impulse purchases, where there is some degree of exclusivity, or where there is an emotional end-benefit (eg jewellery and the arts). However, making it a sustainable strategy for a whole business requires a clear competitive advantage, through, for example, a strong brand.

There are some arts organisations whose limited market means they are able to base their strategy on skim pricing, and others where the international brand is so strong as to allow for much higher prices, such as the Vienna Philharmonic.

Skim-priced corporate entertainment packages are still commonplace in the arts, although greater competition has emerged since they first became popular in the 1980s. However, many arts organisations also find that there is a sector of their market that simply asks for 'the best seats'. Events with a major star or that are good for special occasions or treats – typically the West End, big musicals, ballet or opera – attract those who use price as an indicator of high value when they want a guaranteed good night out.

This opportunity can be exploited by offering a premium price, in addition to a neutral pricing strategy. Creation Theatre Company presents site-specific productions in Oxford. By identifying the key benefits sought by customers who ask for 'the best seats' (including additional leg-room, pre-show drinks, programmes and priority bar queues), it is able to offer a package charged at an additional premium which is purchased by over 10 per cent of the market. By maximising income from those willing to pay for a premium experience, the company, which does not receive regular subsidy, is able to operate a penetration pricing strategy for other more price-sensitive markets, including students and schools.

Penetration pricing

Penetration pricing means using price as a key selling proposition, making price the main reason why people should buy your product. It is generally used to gain or hold market share in a competitive market (and it is important to note that in this context 'market' refers not only to the number of people purchasing, but to their total spend). It only works as a long-term strategy if costs can be lowered and there is the potential for a significant increase in volume of sales – and competitors are not able to respond.

There are relatively few cases in the arts where market conditions mean that penetration pricing is financially viable on its own, not least because few arts attenders buy solely on price and therefore, by charging less, you will be passing up revenue opportunities and risk undermining the value of your product.

The National Theatre's Travelex season is a classic example of penetration pricing: a stripped-back product at a lower price, re-positioning the brand in the highly competitive London market.

Other organisations, such as the Queen's Theatre in Hornchurch and Derby Playhouse, have used penetration pricing in particular market circumstances to gain their share of spend by increasing frequency of attendance through very low-priced subscription schemes.

Neutral pricing

Neutral pricing is essentially neither 'skim' nor 'penetration', with prices set at a comparable level to those of competitors. This is not to say that prices will be the same as those of competitors. They may be the highest or the lowest, but they are defined by the perceived value of the offer, relative to the competition.

A neutral pricing strategy is often adopted by default and usually forms the core of an arts organisation's approach to pricing.

Which strategy is right for you?

For most arts organisations, a combination of strategies works best: neutral pricing as the basis for standard prices, skim pricing for customers willing to pay more for the best experience, and penetration pricing to address markets where other barriers to attendance are significant. This is rather like the pricing you'll find at your local Tesco: most brands and products priced competitively, with the 'Finest' range for those willing to pay more for higher quality, and the 'Value' range for the cost-conscious.

There are a number of factors to take into account when considering which combination of strategies works best for your organisation. Your costs and your customers form the parameters within which prices can be set: if you do not cover your costs, or if you charge more than your customers are willing to pay, your organisation will be unsustainable. However, between these parameters pricing offers all sorts of possibilities for helping you meet your objectives.

Costs

Historically, pricing strategy was cost-based: you decided what you wanted to do, worked out how much it would cost and then how much you needed to charge, based on the number of attenders you thought you would attract, in order to get that money back. But this can be a good way of losing money. A lower price charged for a product that is just as good, but happens to cost less to produce, represents lost income (and potentially lost sales, by suggesting that it is of lower quality or value). More significantly, forcing prices higher than the market is willing to bear to help pay for higher costs may reduce sales.

Customers

While there will be a small section of the market for whom cost is an absolute barrier to attendance, for most – and certainly for the majority of the educated middle classes who currently attend, especially in an age of easy credit – it is less a question of how much they are able to pay, and more of what they are willing to pay. This is a function of their perceptions of the value offered.

Objectives

A pricing strategy must start with 'what the market will bear', with costs coming into the equation in calculating whether an organisation can afford to stage a particular event. But that usually leaves significant room for manoeuvre in allowing price to address a range of different objectives.

Arts organisations normally have three sets of objectives, all of which have a significant bearing on pricing strategy, but which can also create contradictions.

- **Artistic objectives** define the work of the organisation. They tend to require maximum occupancy, often for specific events that might be difficult to sell. This means that there will be pressure to sell the tickets at any price as long as the event is seen as a success.
- **Financial objectives** also require maximum occupancy, but are also much more concerned with the income per ticket.
- **Social objectives** determine what sort of customers an organisation wants to attract. These can conflict with other objectives: for example, customers desired for social reasons may not generate the yields required to meet financial objectives.

Putting a price on value

Like all aspects of marketing, pricing starts with an understanding of the people you want to attract, and the benefits that might attract them. What are their motivations for going out? People go to arts events for all sorts of reasons, including special occasions and specific shows and events.

What needs are people trying to meet when they go out? What are their alternatives? This sets the context for price – what value are they seeking? – and allows you to understand your competitive set and the context within which customers are judging the price/value trade-off.

Understanding perceptions of value

When presented with a price for a product or experience, we all, consciously or unconsciously, weigh up the relative value of that offer compared to the other things we might do with the same amount of money – or, just as importantly, with our time. This weighing up of value is affected by many different factors and may even change at different times for the same offer. For example, you might visit the same restaurant for a business lunch, a romantic evening and a Sunday lunch with the extended family; your perception of value (and the price you would be willing to pay) would be different on each occasion. In the case of a theatre visit, tickets bought for a birthday treat will be valued very differently from a regular subscription you take out for yourself.

Of course, the event itself lies at the heart of the value a customer will attach to it. How special is that event? Is it a normal part of your season, or a once-in-a-lifetime experience with a star performer (nothing drives value like perceived scarcity)? Perceptions of value are also affected by other factors, including the facilities and ambience of the venue and a company's brand.

Brands are all about creating value. Brand value is, however, external to the specific attributes of a product. For example, designer clothes create a value – and thus willingness to pay a price – that goes far beyond the basic utility offered by the item. Other brands create a sense of familiarity or trust. While there is a small segment of the arts-going market that actively seeks out risk, for the majority of customers, risk is, in a sense, the opposite of value. An experience that is new or unfamiliar makes it very difficult for the customer to understand the value it might offer and thus weigh up whether the price is a fair one. In certain circumstances a lower price can help overcome perceptions of risk, by suggesting a 'bargain', but it can work the other way. Price can enhance perceptions of value (which is why Stella Artois once claimed to be ‘reassuringly expensive’), with a higher price used to suggest higher quality. Equally, a lower price may suggest lower quality. You may choose a flight for its cheapness, but you’re unlikely to pick your dentist purely on the basis of price.

Perceptions of value also depend on the profile of the customer. Earnings, occupation and lifestyle all have an impact on the way that value is perceived, and life-stage – most significantly whether or not they have children – will have a tremendous psychological and practical impact on the type of experience a customer will value. Someone looking for a family day out, for example, will have a very different framework for assessing value than that of a single person looking to impress someone on a first date.

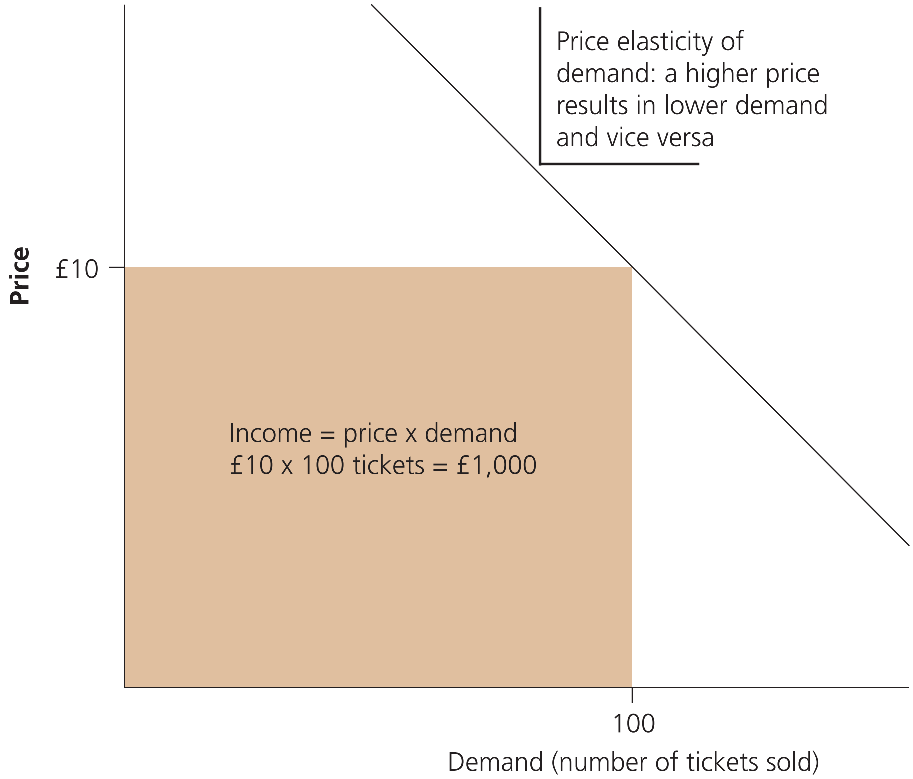
Perhaps the biggest influence on the way a customer perceives the value of the event you are offering is their experience and knowledge of that type of event. A regular attender at a theatre over many years will have a far more acute understanding of the relative value of your offer than a first-time attender. Regular attenders are able to make comparisons of relative value – between different artists/productions, the merits of different parts of the house, and so on – and also of the availability of substitutes from the competition. Regular attenders therefore tend to be more price-sensitive than infrequent attenders, who are more likely to use price as a proxy for value (a high price equals a guarantee of quality).

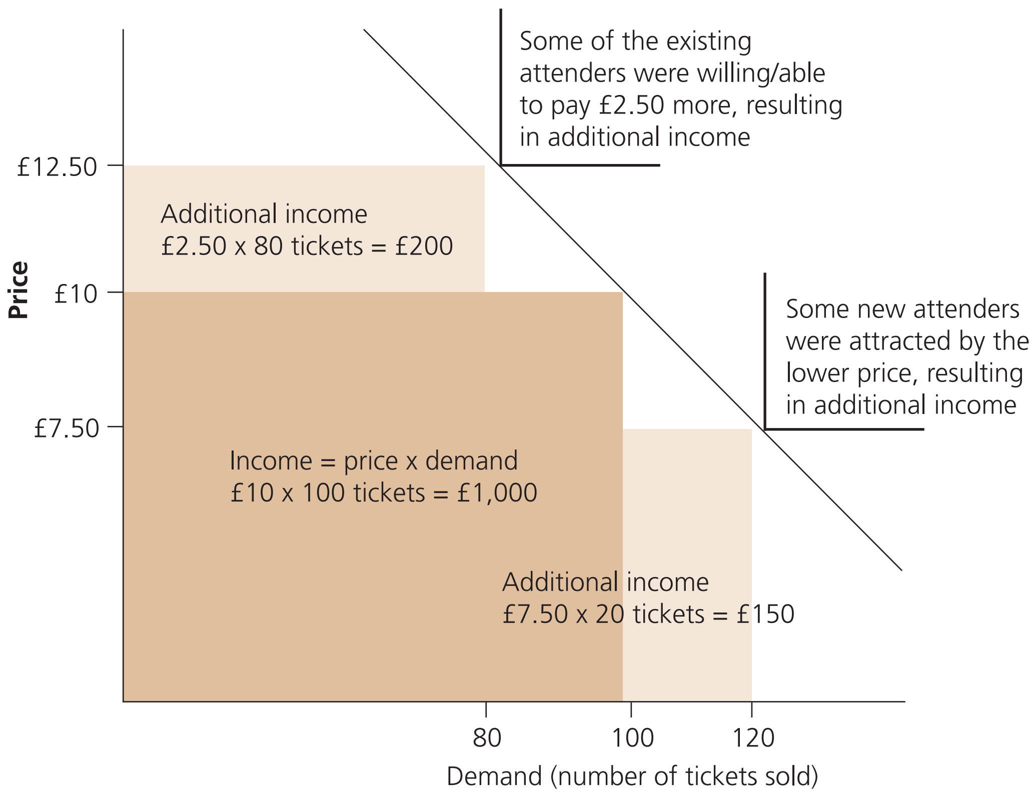
Price differentiation

Perceptions of value are individual to each customer for each event. As a result, the price that customers are willing to pay varies significantly. The key to maximising income and accessibility is to differentiate prices to reflect that variability. Maximising both income and access depends on having a wide variety of price points to meet different perceptions of value.

There are examples where it is difficult to have more than one price (eg in the visual arts), and there are sectors in which a single price works well (such as popular music, where it is commonly accepted there is just one price for a gig). However, having only one price leaves you with very few options when you need to increase income: you can either put the price up or try to sell more tickets.

Price elasticity of demand means that with only one price there will always be some people who would have paid more, and other people who may have come had you charged less. Both represent lost income opportunities.


Price elasticity of
demand: a higher price
results in lower demand
and vice versa
Price
£10
Income = price x demand
£10 x 100 tickets = £1,000
100
Demand (number of tickets sold)


Some of the existing
attenders were willing/able
to pay £2.50 more, resulting
in additional income
£12.50
Additional income
£2.50 x 80 tickets = £200
Price
£10
Some new attenders
were attracted by the
lower price, resulting
in additional income
£7.50
Income = price x demand
£10 x 100 tickets = £1,000
Additional income
£7.50 x 20 tickets = £150
80
100
120
Demand (number of tickets sold)

As the graphs opposite show, the way to gather that lost income is through price differentiation. Whether your organisation is large or small, performing or visual arts, the principles of price differentiation apply. If it is not possible to break prices in an auditorium, or your organisation is not auditorium-based, you need to look at other options for differentiation.

In cultural organisations there are a wide variety of tactics that can be used to differentiate prices. Choosing which mix of price differentiators to use depends on the differences in value that will motivate your customers and on the simplicity of presentation.

The price is right?

So you know your target markets, the value they are seeking and how to communicate those benefits effectively. How do you set prices?

This section examines, first, how to set prices, then the variables available in the price differentiation ‘toolbox’, the importance of value fences and, finally, the flexibility that can be achieved using revenue management tactics.

Setting prices

Pricing textbooks talk about ‘valuing competitive differences’, meaning the different economic benefits of product features. While this is difficult with something as intangible as an arts event, it’s still worth trying to ask what you do better or worse than the competition and what that is worth to your customers.

But that begs the question of what the competition is exactly. Price competition in the arts is very rarely direct (people rarely decide to go to the play at Theatre A rather than Theatre B purely on the basis of price). Competition isn’t necessarily the theatre down the street, but any other substitute product or experience that a customer might purchase to meet their particular needs. A social occasion could be spent in the pub. A birthday treat could be a sporting event. And cultural enrichment is available through an increasing range of media in the home or a good book.

Actual prices will be set around your headline price: the main point of reference compared to the price of possible substitutes. This would usually be the top price (excluding any premium offer with added value), but should also include consideration of bottom prices (excluding discounting).

However, it is very rare that you will need to set prices in such an abstract way. Although it is useful to reconsider issues of value from time to time, if you have an established audience or established offer, your existing prices will be the starting point for the actual prices you set, and you can examine price demand in relation to those offers and audiences.

Price differentiation is fundamental to an effective pricing strategy. The number of variables that can be used to differentiate prices is enormous – which you use will depend on your product and the need to keep the resulting price schedule as simple as possible for the customer.

The price-differentiation toolbox

At the heart of the toolbox are the four core price levers: price variables, venue variables, product variables and transaction variables. The key to a sophisticated pricing strategy is setting these variables to reflect the individual value perceptions of different customers for different events.

Price variables are not just the different prices you charge but, perhaps more importantly, how many prices you have, what the relationship is between those prices (the range from top to bottom, as well as between each price) and the way that your prices reflect natural price thresholds. The number of prices you could have is potentially large, the main limitation being the need to present them as simply as possible to customers. A minimum of three is probably best: many customers automatically look at mid-range prices, but others will look for the best seats or for a bargain.

Where prices are presented in a range it is important to think about the relationship between them, so that the next price is within reach; if your prices are £10, £20 and £30 you are creating big jumps for customers to trade up. The importance of price thresholds is difficult to prove definitively, but we all know instinctively that £10.01 feels wrong. Thresholds exist not only at round numbers – £5, £10, £15, etc – but at the £2.50 intervals too.

Venue variables describe how prices reflect the attributes of an auditorium (stalls, circle or balcony, but also front to back, side to side and different types of seating). It is vital to make sure that the number of seats at each price reflects levels of customer demand.

An analysis of patterns of demand for Regents Park Open Air Theatre revealed greater demand at top price than seats available. Increasing the number of seats at top price allowed for further demand, and overall price changes resulted in significant additional income.

It is vital that any such changes reflect actual differences in quality of view, acoustics and so on, and that those differences should be perceived by customers. When City of Birmingham Symphony Orchestra (CBSO) moved into Birmingham Symphony Hall, they priced a very complex auditorium in a logical way, but found that over the following seasons their yield fell. Customers were 'learning' the hall and finding that cheaper seats were just as good as more expensive ones. Detailed price demand analysis allowed the orchestra to identify which seats the customers thought were best and re-price them accordingly. As a result, they were able to increase yield by 7.5 per cent.

Product variables describe the way you change price schedules for different productions or performances.

It is often standard practice to price productions or artists differently. However, this is not always desirable: analysis of demand often shows that higher priced shows sell better than lower-priced ones. It can be argued that pricing a similar event at a lower price creates the suggestion that it is not as good as a more expensive event.

Presenting a run of performances also offers the option of changing prices by time of day (matinees versus evenings), day of week, or over the course of the run. This can be highly effective, both by maximising income from those willing to pay most, eg for a special Saturday night out, and by shifting demand from the more price-sensitive customers to the less popular performances. For example, Theatre by the Lake in Keswick offers penetration-priced package deals for performances at the start of its long summer season to free up seats during the peak months of July and August.

One of the most effective uses of this technique is for Christmas shows, where peak performances are more expensive, shifting demand to off-peak performances and maximising income from the less price-sensitive customers.

Transaction variables allow prices to be adjusted based on the time of the transaction or the sales channel used.

Airline revenue management systems use transaction variables, increasing the price the later a booking is made. This depends on having a late-booking market willing to pay more for the benefit of delaying their choice (or to book earlier to secure a discount). This doesn't always apply in the arts, although there are countless small venues effectively doing the same thing by charging less in advance than on the door. Marlowe Theatre in Canterbury offers Early Bird rates for customers booking months in advance for its Christmas show, thereby persuading customers to book as much as a year before the performance takes place.

Changing prices by sales channel depends on whether there is additional benefit from one sales channel versus another. One could argue that since online booking offers the benefit of convenience, it should be more expensive than other channels. However, the number of cost-cutting online sales operations means that most customers expect online prices to be, if anything, cheaper than elsewhere.

Discounts and surcharges

Discounts and surcharges (including transaction fees) offer further opportunities to differentiate prices, overlaid on the core price levers described above.

Discounting

Discounting is the most flexible means of price differentiation, because it offers three variables that can be changed:

- applicability: who can claim discounts (either concessions or sales promotion) based on behaviour or other characteristics
- availability: how many discounted tickets are made available, for which performances, and at which stages in the sales cycle
- discount rates: what the different discount prices are.

The main problem with discounting as a means of price differentiation is that it only reduces prices. However, you can maximise income by controlling and differentiating discounting.

The principles of differential discounting apply to concessions, as well as to sales promotions. For example, it is not necessary to offer the same discounts to well-off seniors as to unemployed people on income support. It is already possible to make different promotional offers to different database segments according to previous booking history, but exciting possibilities exist around online sales if 'cookies' can be used to identify returning customers.

It is also common to see organisations maximising income by restricting availability of some or all discounts and concessions for peak performances. Some, like Birmingham Hippodrome, make all discounts and concessions 'subject to availability' and are thus able to close off discounts after a certain number have been allocated for popular performances.

The key potential benefit of discounting is selling more tickets, but it also has a number of dangers and, if used indiscriminately, can undermine value.

While there are furniture shops that have non-stop sales, there are many examples of arts organisations where indiscriminate discounting has had a disastrous effect on ticket sales; customers no longer book in advance, but have learned they can wait for the special offers to start. The key to avoiding this problem lies in 'value fences'.

Transaction charges

Unlike discounts, transaction charges have the advantage of being 'extra'. They are also relatively flexible, eg per ticket versus per transaction, as well as the actual level of charges. It is also possible to adjust charges by sales channel, payment type, performance or customer profile.

Transaction charges are particularly attractive to venues with external promoters, because additional income from ticket sales is usually shared, whereas transaction fees are retained. Although customers tend to dislike them on principle, transaction fees are now commonplace and unless there is competitive advantage derived from not charging them, not doing so simply represents lost income.

Good fences make good customers

Customers should always understand the reason for a difference in price. In pricing theory this is known as 'value fencing' – the reason why someone will pay more for something (the genuine additional value) or expect to get a discount. The most important point about value fences is that they need to reflect benefits that are important to customers. For example, when setting price breaks in an auditorium, you need to understand which seats the customers think are the best.

The best value fences will be based on points of competitive advantage that are valued by customers (such as comfort, view, acoustics, quality of service) and as such may translate into brand values. For example, The Broadway in Barking offers a 'Big Night Out', in which people place value on the cabaret style seating, waiter service and social experience as much as the performance itself.

It is important to remember that value fences can mean taking something away as well as adding value. So, the 'deal' for standbys is that you pay very little for good seats, but you have to take a genuine risk on availability. If you leave holes in value fences, you can be sure that customers will jump through them. If customers work out that standby is always available on decent seats, why would they bother paying full price in advance?

Revenue/yield management

Revenue (or yield) management is used by most airlines and has been successfully applied to many other industries, including hotels and rail companies, to manage inventory and maximise income.

Essentially, revenue management involves setting a range of price classes which are opened and closed according to a comparison of actual sales against a forecast. It thus includes control of discounting, but also the management of inventory to ensure that sufficient product is kept available for purchasers willing to pay the highest price for convenience at the last minute.

Revenue management requires the ability to segment customers into micro-markets with identifiable patterns of demand for different prices and products. This requires a sophisticated pricing strategy and an ability to forecast, monitor and react to sales patterns and external market factors. Implementing a successful strategy requires commitment throughout the organisation, a willingness to implement changes at a strategic level and, often, financial investment. Critically, it will not work without strong market demand for the product or service in question.

On the surface, the arts, entertainment and sport sectors have many similarities to industries where revenue management has been successfully applied. However, there are some critical differences created by the different nature of the value offered by arts events, so if revenue management is to work, its principles need to be understood and applied in unique ways.

The main principle of revenue management is to adjust price differentials in response to changing customer demand, in order to maximise both occupancy and income. The entertainment sector already uses many revenue management techniques, eg differential pricing by time of day, day of week, availability of concessions by performance, cheap previews, Early Bird and standby. Some organisations already adjust price breaks by performance and many adjust prices to control inventory for Christmas shows. Many organisations control discounting by operating quotas. A few arts organisations have developed airline-style pricing strategies, where prices change by booking time, perhaps the best example being The Place, a dance centre in London.

Revenue management doesn't have to be an 'all singing all dancing', dynamic model where prices and availability change constantly (as happens with sophisticated airline systems). It can be simple things like removing concessions from weekend performances, having several different seating plans for an auditorium, or adjusting the number and schedule of performances of a panto.

The key to applying revenue management is adopting a scientific approach to planning and to the ways in which simple existing tactics are applied. This will include better informed and more finely tuned decisions about the need for last-minute promotions, design of subscription schemes, application of discount quotas, changing seating plans between performances, offering premium seats and managing inventory away from peak performance, but also adjusting inventory – how many performances of what, when?

Sales promotion: Using pricing to increase sales

While controlling discounting can maximise income, the main benefit of discounting is selling more tickets, by encouraging trial, increasing frequency of attendance, increasing party size and, if necessary, shifting unsold seats at the last minute.

In developing discount tactics, it is important to distinguish between sales promotions (to increase volume) and concessions (which are about social objectives).

Discounting to encourage trial

Price alone is rarely the main reason for people not attending, but, packaged with other elements that address barriers to attendance, discounted prices can be effective. An example of this is Test Drive schemes that encourage 'free trial' while addressing other barriers, through, for instance, print designed specifically for new attenders. Often the biggest challenge with these schemes is getting people to re-attend at full price.

Discounting to increase frequency of attendance

Research consistently shows that the majority of people who attend the arts do so very infrequently. (For example, only 39 per cent of those who attend plays do so more than once a year, just 9 per cent of the population.[1]) Assuming the seat would otherwise go unsold, every £1 a customer spends on an additional attendance represents additional income, and often that only means getting someone back for a second visit in a year. Consequently, it is usually worth discounting and taking a 'hit' on yield to increase frequency because, assuming you have spare capacity, you are obtaining additional income and building your relationship with the customer. Frequently attending customers are more likely to keep coming – and keeping existing customers is far cheaper than generating new ones, so marketing costs are reduced. The potential 'lifetime value' of these customers more than makes up for short-term losses. Furthermore, discounted prices and familiarity with the organisation can encourage greater risk taking. And it makes planning a great deal easier if there is a guaranteed sales base to build on, allowing more time and resources to be deployed developing attendance from more difficult markets.

Discounting is effective in increasing frequency of attendance, because previous attenders have a better understanding of value and thus appreciate the deal they're being offered. However, before implementing sales promotions to increase frequency of attendance, it is critical that you know the current frequency of attendance and thus the points at which to encourage trade-up.

The range of options for such sales promotions is wide.

- A 'money off next purchase' voucher offers a simple approach to encouraging repeat attendance from new or infrequent customers. However, it can be difficult to control what else they come to without complex conditions, and there can be issues in ensuring non-transferability (ie stopping customers giving it to someone else).
- Two events for the price of one, three for two, four for three, etc offer a slightly more controlled version, especially if the date/product of the other purchase is stipulated.
- Loyalty cards or points schemes provide flexibility for customers, creating an incentive to frequency without the need to plan in advance. It is also possible to charge people to belong to a scheme and to add value to promote greater frequency of attendance.
- Packages: discount if you book three/four/five events, through to full subscription. This encourages customers who are willing to plan their attendance to try different things. Packages booked in advance are good for cash flow and can help marketing planning. Packages might also include added value offers.

Maximising income through subscription

Subscription schemes aim to maximise sales by increasing frequency of attendance. They encourage customers to buy tickets for a package of events in advance and thereby attend more events than they otherwise would have done.

Discounts are essential in creating a sense of value for money, and placing a deadline on the offer can create a sense of urgency.

However, the level of discount offered is rarely the most significant factor in the decision to subscribe. Most people who subscribe do so because they like to plan (and the main reason people don't subscribe is that they don't like to plan).

Derby Playhouse wanted to encourage more of its audience to see a whole season of their work. Generating an earlier cash flow was also a primary objective. They launched a very simple subscription scheme, offering four shows for the price of two. Before launching the scheme, advance season ticket sales were as low as 1,000. In the three seasons since, they have generated as many as 16,300 advance ticket sales. Although the scheme was principally aimed at existing attenders, 30 per cent of subscribers had no previous booking history. Yield, predictably, fell, but not by much (less than 5 per cent), and increased sales meant that average income per performance rose.

In designing a scheme, it is important to research the nature of the offer that will motivate the market (and ensure the organisation will not lose out). Schemes range from a 'take it or leave it' offer of a complete season, to 'choose a series', with a choice of packages (eg a Wednesday or Friday series, or a drama subscription or comedy package), through to 'pick and mix' schemes aiming to give a customer maximum flexibility and choice.

CBSO had a highly successful fixed-day subscription running for many years, but found that retention, and especially uptake, had started declining for the highest frequency packages. They commissioned research to help in designing an additional, flexible scheme, ensuring that the levels of discount, choice of concerts and other benefits differentiated from the original scheme to meet the needs of new subscribers, without causing too much slippage from the original and highly beneficial scheme.

Once a scheme has been designed to suit the market and maximise sales, there are a number of structural variables which can be adjusted to improve yield and volume, and thus total income: eg season length, offer timing and availability, discount levels and number of purchases required.

Where possible, organisations should also try to address barriers to purchase. Common reasons cited for not subscribing are: size of financial outlay (so let customers pay in instalments), not wanting to commit in advance or inflexibility of schedules (so offer ticket exchanges) or wanting to choose which performances to attend (offer a 'pick and mix' subscription).

Increasing party size

Group bookers can deliver a high volume of sales and it is worth using pricing tactics to encourage them. However, doing it properly requires investment that is probably only worthwhile if groups represent a significant market.

Larger groups effectively make the organiser a member of your sales team. Above all, you need to consider the nature and motivation of groups and organisers, eg groups of friends, corporate entertainment and schools all seek different benefits. In some cases, a group discount may be a key benefit sought, but often organisations have a 'one size fits all' groups policy that means that some groups are being given discounts when they would actually prefer added value (eg best seats, 'hosted' service, catering, separate room). It can be time consuming to properly respond to the nature of different groups with a direct sales operation, so a dedicated member of staff may be required.

'Four for two' can be a better way of expressing a 50 per cent discount and higher multiples can make a significant difference to sales. Since most people come in pairs, two for one is no more than a 50 per cent discount – it won't increase sales. You need to assess current party size and thus the points at which to encourage trade-up.

Last-minute discounting

Perishability is a key problem of selling tickets for events, but feeding the late-booking culture causes problems.

- Standby: attracts last-minute attenders and at the same time shifts seats that wouldn't sell otherwise. However, this has helped to create endemic late booking in several markets, especially where conditions (eg eligibility and time of purchase) are not applied or have been extended.
- Rush: same as standby but only available on the door. This does not have such a bad effect on booking and it is easier to control quotas. It also creates a value fence because it requires customers to take a real chance (unless they learn that tickets are always available).

Implementing pricing strategy

Price incentives

There are many different ways to express a discount or offer a price incentive, such as:

- x tickets ‘free’
- fixed price, eg £5 best available
- fixed discount, eg £2 off
- percentage discount.

The trick is to pick the one that makes your discount seem the greatest.

Although not exactly a price incentive, a money-back guarantee can help to offset the risk that some may perceive in unfamiliar work – and few people do ask for their money back!

Putting it all together

Make sure all the different elements – prices, price differentiation, sales promotions, concessions, revenue management – work together to achieve your objectives. Are your value fences motivating? Do they work in the right places to achieve your objectives (eg frequency of attendance)? What are you getting in return for offering a discount?

Having established a range of differentiated prices, look at the price range from top to bottom, the relationships between prices (ie how big a jump you’re asking customers to make to trade up), and the relationship to the round-number thresholds.

Presentation of prices

Think about the message your pricing communicates about your organisation. If you are pricing productions differently, what are you saying about the quality of each production? What do concessions say about the audience your organisation wants to attract? What kind of booking behaviour do you reward?

If your strategy includes penetration pricing or sales promotion involving discounts, remember that the price becomes a key part of the message. If the idea is to persuade people to change their behaviour because of price, then you need to make that clear.

You don’t need to put every detail of every price and discount on every piece of publicity. The basics might be no more than the range of prices (from top to bottom, because if you start from the bottom the top can seem very expensive!) and the concessions available.

Above all, keep it simple. A good pricing strategy should be swan-like – all the activity goes on below the surface!

Writing it down

Having decided on a pricing strategy, write it down in a policy document accessible throughout the organisation, especially to box office or other front line staff. Include details of concessions policies and the circumstances under which tickets are discounted. In developing your concessions policy, the fundamental question is: to whom do you want to be accessible? Segment and target your concessions so that they meet the real needs of the markets for whom price is a barrier.

It should be possible to use the strategy as the basis for future tactical pricing decisions, unless conditions change or new opportunities present themselves. Each time new ‘products’ are introduced, new target markets identified, or other major changes implemented, it will be necessary to go through some or all of these steps.

Pricing on the front line

The best pricing strategy won’t function properly unless it is understood and implemented by the box office. Sales staff can offer valuable input into understanding the benefits sought by customers, as well as providing a reality check on the rationale of the pricing strategy. However, it is important that sales staff don’t impose their own perceptions of value. Sales staff often have comparatively low levels of disposable income and high frequency of attendance, making their perceptions of value very different from those of most customers.

Another problem arises where the transaction process has adapted to regular customers. Because regular attenders have a better appreciation of value than non-regulars, they will often know what they want. Where the sales process adapts to these customers, the box office team becomes reactive, rather than asking questions and making recommendations. Asking appropriate questions makes for a faster transaction and makes the process easier for a new or infrequent attender. For example, asking someone where they would like to sit is a common question in transactions, but is not welcoming for a new attender (because it implies they ought to know) and makes an ‘up-sell’ difficult.

A key challenge for the future is making the most of price in the transaction process in different sales channels, in particular encouraging up-selling and cross-selling as part of an internet transaction.

Monitoring

Monitoring means understanding the behaviour of your audience and patterns of demand between performances in relation to your prices. You can tell a lot about the impact of pricing through analysis of data held on a box office system.

A full review of pricing should not be necessary every time you set prices. Effective monitoring means you can identify problems and opportunities that indicate the need to re-consider elements of your strategy. The basics are set out below.

Sales analysis

The key statistics for sales analysis are:

- mean price (total potential value divided by number of tickets available)
- gross yield (gross income divided by number of tickets sold)
- percentage discount ((mean price minus gross yield) divided by mean price) multiplied by 100).

These values can then be analysed against sales (total and average sales and income and percentage capacity sold) by a number of variables such as production genre, year, day of week and so on. This analysis can be used to observe correlations between price, sales and income, and thus identify price sensitivity.

Note that pricing is about tickets sold, and so complimentary tickets must be filtered out. Analysis must also be based on gross income, including VAT, commission and so on, because what matters here is what the customer pays, not what the accountant counts.

Discount analysis

It is important to be able to monitor uptake of sales promotion and concessionary discounts. This can be done using discount codes (sometimes called ‘buyer types’) on a box office system. It is worth taking time to think through discount codes, because ad hoc codes soon multiply and make analysis impossible. Each discount should have its own unique code, but you also need to have some way of grouping them together so that the important distinctions are easily identified, eg sales promotion versus concessions, groups, frequency incentives, Friends, ‘company’ tickets and so on. As a rule of thumb, it is difficult to analyse more than around a dozen code groups.

Analysis takes two main forms: monitoring uptake of specific concessions or sales promotions (in the latter case to measure cost effectiveness); and looking at distribution of demand for different discount types for different events (as per sales analysis).

Sales by price band/part of house

In an ideal world you would analyse sales by price or part of house alongside sales and discount, but this is a more specialist job than you might think. Some box office systems can show sales by each price or part of house, but even then, you need to be able to see discounts. One common mistake is to identify strong demand at top price without necessarily being aware that many seats were 'sold' to sponsors or as part of 'best available' offers.

Customer behaviour

Again, it can be difficult to get this information in a user-friendly format, but the basics for pricing include customer retention rates (the number of new customers versus retained customers – the latter normally being more aware of price and value and more price resistant), frequency of attendance (fundamental for designing any sales promotion to increase frequency), group size (ditto for group rates), and details of which events they attend.

References

1 Target Group Index, Arts Council England, 2002

A balancing act

Fine-tuning pricing strategy at the Lyric Hammersmith

The strategy

As part of its 2005-08 marketing strategy, the Lyric took a detailed look at its pricing strategy and formalised a policy of revenue maximisation. The Lyric's new approach, according to Jessica Hepburn, executive director, was 'to attempt to maximise income from non-price sensitive customers whilst remaining accessible to price-sensitive customers'.

In 2005, the Lyric created two models for pricing the auditorium: economy and premium. Whether a performance was priced economy or premium depended not on just the usual 'feel' for how it would sell, but on an analysis of historical box office data, which showed, for example, that performances at the beginning of a run and on weekday evenings were harder to sell. Jessica also examined the Lyric's popular tradition of cheap tickets on a Monday night, part of its commitment to accessibility. Shifting the cheap tickets to performances earlier in a run succeeded in increasing yield, thus, Jessica says, 'enabling us to promote economic accessibility on performances that have been historically more difficult to sell'.

The strategy has paid off modestly over the first two years, with average ticket yield in the Main House up from £10.74 in 2005/06 to £11.60 in 2006/07, though this is partly due to an increase in ticket pricing. Average attendance has remained steady at 70 per cent. One recent innovation, made possible by Patron Edge, a box office system from Blackbaud, is that premium and economy performances can be set once the theatre has a sense of how the show is going.

Any pricing strategy is influenced and shaped by the particular context in which the venue or organisation operates. A strategy looks outwards and inwards, for example taking account of competition within the sector and responding to customer demand.

Adjusting for the competition

As part of its research for the new marketing strategy, the Lyric looked at its main competitors, in this case helpfully identified by

Audience London's Snapshot survey, which looks at venue cross-over of audiences. Crucially, the Lyric knew strategically where it wanted to be positioned: below the National Theatre, the Barbican Centre and the West End; comparative with the Almeida and the Royal Court; and above the Tricycle and Battersea Arts Centre. It was vital, Jessica says, that 'we used our pricing to send messages to our audience about the value of our work relative to other venues'.

When the Lyric increased its prices in 2006, for example, the top price rose from £25 to £27, but the lowest full price ticket proportionately less, from £12 to £13. The cheap ticket nights (£9) and student tickets (£7) remained untouched, on the principle that 'increasing the top price sends a message that the Lyric's work is of a high quality; while the lower prices maintain accessibility'.

Jessica is also interested in other pricing models used by competitors, including the National Theatre's £10 Travelex scheme, a popular initiative that dissuaded the Lyric from increasing the price of its £9 nights.

Adjusting for the public

Although the need to increase revenue drives price hikes, a careful eye must be kept on what the market will allow. For example, the decision to increase prices last year was supported by an analysis that showed that there was no significant price sensitivity. Indeed, at many performances, the higher-priced tickets were selling at a faster rate than lower-priced tickets. A Mosaic analysis, based on customer postcodes, indicates that Lyric audiences come largely from wealthy areas and professions. A look at other theatres' current prices also demonstrated that the Lyric's prices were 'very competitive'. Thus, it was decided that the Lyric could increase prices with a relatively low risk of a decrease in demand.

With thanks to Jessica Hepburn
Lyric Hammersmith, www.lyric.co.uk

Making an irresistible offer
WNO's subscription scheme

*Opera can be a 'special occasion' purchase. Our pricing strategy, however, is aimed at putting on a cultural programme for everybody. We want people to come more often and try out more kinds of opera, not just **Carmen**.*
Lucy Shorrocks

Think of opera and most people think of high prices. This is partly because, no matter what the range of prices on offer, people tend to remember the price of the best seats. It is also because, until very recently, opera was genuinely at great risk of overpricing itself and losing an audience, as the Welsh National Opera (WNO) discovered when it commissioned research from Tim Baker into its own pricing practice. That research found that price was crucial in driving attendance and that audiences would be more likely to take risks on less popular work if prices were lower.

From research to implementation

Since then, the WNO has set out to create an opera-going habit by selling the maximum possible number of seats for the minimum possible price. With an annual box office target of £3m, Lucy Shorrocks, WNO's marketing director, is not entirely joking when she says that if the company could sell three million tickets at £1, it would. However, as the biggest venue it tours to is the Liverpool Empire, with a capacity of 2,225, that is not a likely scenario. The next best thing, the company felt, was to find a way to increase audiences not just by encouraging new people to come but by getting existing attenders to come back and, crucially, given the company's need to remain vital artistically, to try out operas they previously might not have considered going to see. The strategy that WNO has adopted is thus driven by frequency and risk – and it takes the form of a novel subscription scheme.

This strategy is currently applied at three of its main touring venues, in Birmingham, Southampton, Llandudno, and, most impressively, at its new flagship base in Cardiff, the Wales Millennium Centre (WMC), which opened in November 2004 (the WNO launched its first season there the following February). This venue can seat 1,800, virtually twice the capacity of the New Theatre, where the company used to perform. Having, on the basis of its research, introduced a new strategy of reducing prices to drive up attendance at the Mayflower in Southampton in 1998, the WNO bit the bullet and, when it moved, reduced its old top price of £47 to £35. It also reduced the number of price breaks from thirteen to seven partly because there were virtually no seats in the new venue that didn't have perfect sightlines or acoustics (key considerations in pricing the former venue, built a century ago). And even the lowest price was cut, from £8 to £5.

A different kind of subscription

Having made the overall offer more financially attractive, the WNO then created an unusual subscription scheme to tempt audiences to come back for more: when bookings first opened, tickets could *only* be obtained by subscribing, with single tickets finally going on sale several months later. The hope was that, having lured subscribers in with big names like Lesley Garrett, they would then discover that they had wider operatic tastes than they had first thought. The fact that tickets for *The Flying Dutchman* with Bryn Terfel sold out on subscription before individual sales had opened encouraged people to feel it imperative to subscribe if they were to get the best possible deal – and the best possible tickets.

In mounting a production of a popular work, like *The Flying Dutchman*, the temptation is for venues to price fairly high but then to price down less familiar work, such as Tchaikovsky's *Mazeppa* or Handel's *Jephtha*, to encourage people to take a risk. At the WMC, however, if customers commit themselves to booking at least five operas a year, they can choose two operas from list A, ie the safest choices – say, *Don Carlos* or *The Merry Widow* – and then receive a discount on two of the less familiar operas; the most risky evenings are discounted by 50 per cent, so the top price for *Mazeppa* was, in operatic terms, a bargain at £17.50.

Longer-term outcomes

The WNO has gone through nearly three cycles of this scheme and Lucy is cautiously optimistic about its longer-term outcomes. Certainly the sales picture was good right from the start: the initial figures, comparing WNO sales at the New Theatre in 2004 and at the WMC in 2005, show a 96 per cent increase in seats sold (from around 21,000 to 41,000) and an 87 per cent increase in gross cash income (from around £482,000 to £901,000), while the average price paid for a ticket fell by 5 per cent. Even more satisfying is the fact that, over the last three years, 26–35 per cent of each house has been sold through subscription. That statistic might just be the first concrete sign of a major cultural shift in attitudes towards opera-going.

With thanks to Lucy Shorrocks
Welsh National Opera, www.wno.org.uk