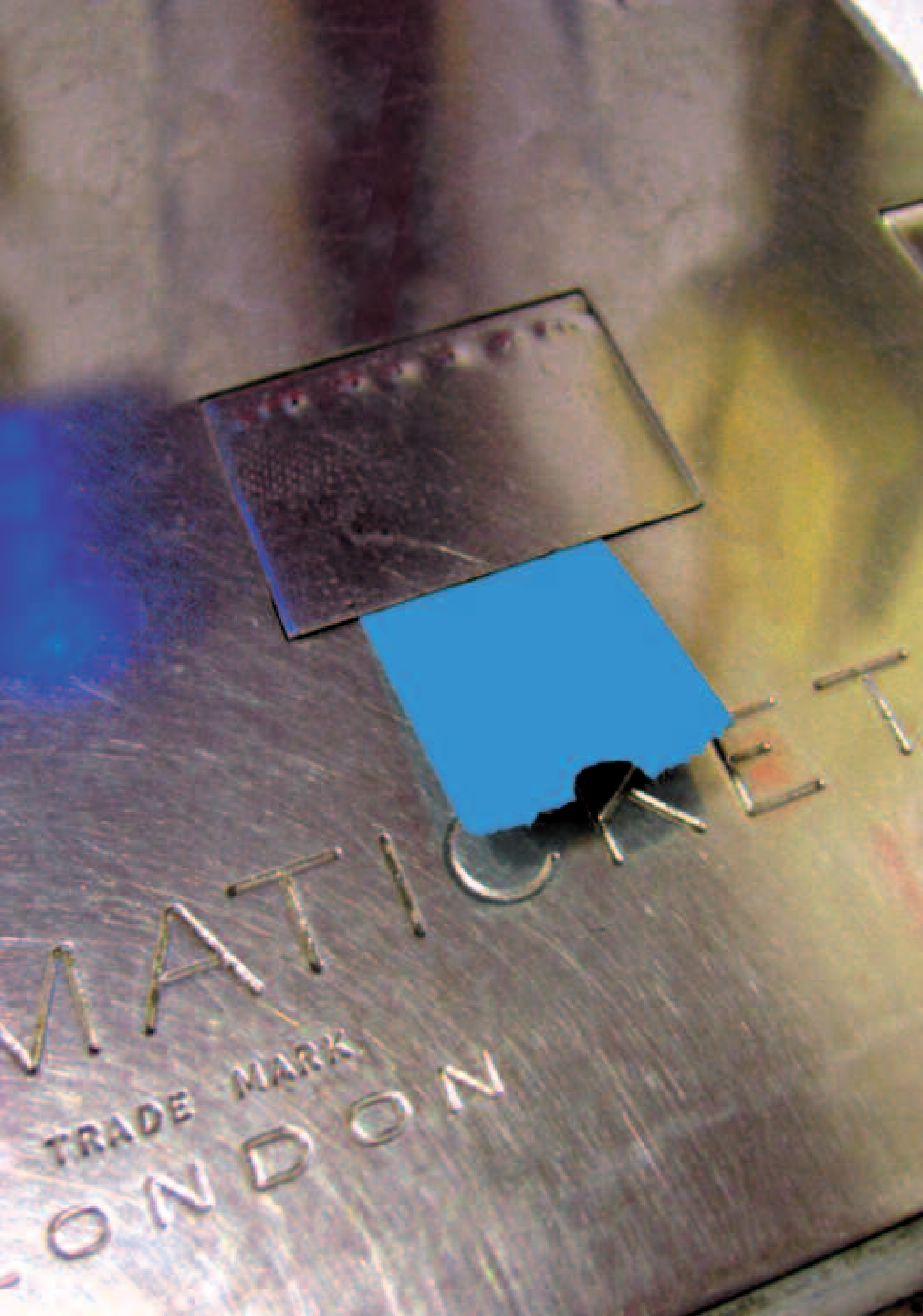
Introduction

Playing with live ammo


TRADE MARK

Playing with live ammo
Debates around the role of pricing in the arts

Richard Ings

Pricing: A neglected art?

> Managers are always nervous about really engaging with pricing as a marketing tool because it feels like playing with live ammo.

Tim Wood, marketing manager at The Place, a leading contemporary dance venue, neatly encapsulates here the paradox of pricing in the arts: *it is so important that many people are afraid to do anything about it.*

That is why every success story you hear about pricing begins with an admission that 'once upon a time, there was no strategy'. Prices had been settled on by following well-worn formulae or were based on untested assumptions. Often, the decisions had been taken either on the hoof or by someone in junior management. Sticking to 'how it's been done before' may or may not be a peculiarly British trait, as one manager remarked to me, but it's still not uncommon. Equally prevalent is the practice of setting the marketing department a target attendance to meet, which means effectively that product (and the artistic choice behind that product) is determining the role of pricing strategy.

Partly because pricing has had such a low profile in the arts, it is not that rare to discover that a newly appointed venue or marketing manager has had no previous experience in pricing. Unlike such managers, Dave Murphy had accumulated a long business CV, most recently with an oil-trading company, before becoming chief executive at Cambridge Arts Theatre. He brings an outsider's fresh perspective to the art of selling the arts. From what he has seen, the arts sector often demonstrates a poor understanding of economics, from neglecting the basics – such as the need to do rigorous cashflow checks on a regular, if not daily, basis – to grasping the dangers of over-marketing a finite product: 'If customers demanded more barrels of oil, I could find more barrels to sell them, but if the house is a sell-out, I can't suddenly magic up more seats to meet the new demand.'

Part of the problem, at least in the subsidised sector, is that price has been something of a dirty word – something to reduce or otherwise hide away in order to generate new audiences or a broader social mix, not something to explore as part of a broader strategy for growth. This goes back in some cases to the feeling that the art comes first and that the size of the audience – and the income it brings with it – is not as crucial. Equally, venues have been, perhaps understandably, nervous about being seen to use pricing to maximise revenue in case it jeopardises their pitch for subsidy, although current Arts Council policy is to support arts organisations to 'thrive, not just survive'.

Whatever the strengths of these various explanations, the result is that there is a lot of confusion and nervousness about pricing. So, it seems odd that, until recently, there has been very little detailed research into its role in the arts. Consequently, arts managers have had very few resources available to help them to develop a pricing strategy – or, more fundamentally, to appreciate that pricing can be a strategy.

Broach the subject with managers, however, and it is soon clear how important pricing issues are to them, how many questions they need answered and how unsure they sometimes are of how to proceed – or how far to go in handling 'live ammo'.

> I have recently been thinking about the damaging effects on advance sales and box office income of getting into the habit of giving away last-minute discounts, and would be interested in a system where, as a sector, we rewarded advance booking instead, so the ticket price would gradually increase nearer to the time. I don't have the courage to try this myself yet and wouldn't want to alienate customers, who might go to competitors that discount at the last minute.
> *Haleh Ahmadian, Head of Marketing and Customer Relations, Sherman Theatre*

> Pricing is a critical issue. The balance is always between trying to keep tickets affordable at the same time as being realistic about the cost of production. We don't have a set policy, but treat each show on a case-by-case basis. In practice, we usually price shows higher on a Friday and Saturday and pepper a run with options like a 'cheap Tuesday' or a special schools price. At the end of the day, we try to keep it all as simple as possible for the public, to attract them through the nature of the work in tandem with its cost. The truth is that there is no regular audience in London so every show has to be judged by its own merits.
> *Alexandra Bowley, Programming Manager, Riverside Studios*

> I'm very interested in maximising ticket revenue through using banded pricing in a previously one-price house – looking at booking patterns and pricing accordingly, so, for example, if you know that for dance the seats with the best sightlines sell first, increasing the price of those. The range of prices would mean that the event is still financially accessible, but should, however, generate greater income, and has the benefit of being flexible – higher price seats for one genre do not have to be the same as for another.
> *Jo Dereza, Acting Director, South West Arts Marketing, formerly Marketing Manager, Exeter Phoenix*

Myths and mysteries: a lack of resources

> Pricing is one of the more scientific areas of marketing that demands significant analysis and investigation. Unfortunately, it is still far from being a perfect science, meaning that making decisions and implementing them is complicated and risky.
> *Jessica Hepburn*

In the absence of a reliable source of information or support for creating a pricing strategy – and this may have to wait until the next generation of database management systems – managers have a limited number of options at their disposal, as Jessica Hepburn, executive director of the Lyric Theatre in Hammersmith, explains.

> In determining our pricing strategies, we have a number of resources. We draw on our own analysis of box office data to look at patterns of booking, which informs how certain initiatives are implemented. We also discuss strategies with industry colleagues, and look at competitors' pricing models and review their success. We look at current literature from consultants such as Baker Richards and the Arts Marketing Association and learn from other industries such as the airlines. With the risks involved, the more shared experience and information the better.

In a situation where there are few clear answers and little authoritative guidance, venues tend to gravitate towards examples of success in the hope that they can piggy-back on them. But if an organisation wants to emulate the National Theatre 'Travelex effect' – and quite a number have wanted to – can they really pull it off without incurring financial penalties? And when they start to look deeper, the ways in which such successes have been achieved seem to contradict each other. One venue cuts its top-price tickets to increase yield, while another reduces the number of price bands and raises the top price each year to achieve the same result. If one venue is considering moving away from a single price and splitting the house, the next will be looking at trying out one price across as many events as possible.

Out of this slightly panicky atmosphere arises a range of myths and shibboleths: ‘young people will only come here if they get a big discount’, ‘public subsidy means that we cannot charge a realistic price for our show’, ‘we cannot drop concessions for the over-60s’, ‘our audience would resist a ticket levy’, ‘two-for-one offers are a good way of pushing up sales’, ‘prices cannot be raised once they have gone on sale’, ‘standard concessionary rates satisfy our access responsibilities’ and so on.

Each of these myths has been debunked by managers willing to challenge the assumptions that lie behind them. Tim Brinkman, for example, claims that his 75p ‘theatre development fund’ charge on each ticket sold by Hall for Cornwall was the inspiration for a major West End chain of theatres to do something very similar. Deborah Bestwick, director of Oval House, argues that concessions need to represent a *meaningful* reduction, not just £2 off the full price, to be fully effective. And so on.

Beyond the constricting power of such myths, managers have some very real and tangible practical challenges to their freedom of operation.

Striking a deal: market forces

It should be remembered that arts organisations have limited room for manoeuvre financially, as they lack the capital base that enables a company like Sky to try out risky pricing strategies and to sustain large initial losses to secure its market. Arts companies, in contrast, are simply not as free to change their prices. For those subsidised by local authorities or arts funding bodies, even the most sophisticated understanding of value and price cannot prevent the roof falling in when grant cuts are announced, so caution is endemic – and probably wise.

They are also operating in a complex economic environment, where it is not always clear who or what their competition is – other local venues, the alternative of a CD or a cinema ticket purchase, a night at the pub – or how the local demographic can be turned to their advantage. Even if the organisation has national significance and thus draws on a wider potential audience, it is, most managers would argue, crucial to know the local market before setting any kind of strategy or using any type of tactic. As Jane Pugh, project manager of Carn to Cove, Cornwall’s rural touring scheme, remarks, 'each village has different needs and issues' which affect pricing strategy.

Paul Maurel, artistic director of the Laurence Batley Theatre, gives a vivid example of how pricing strategies are, by definition, market- and particularly local market-driven.

> If we look at a product like Phil Cunningham and Aly Bain in concert, Colin in Inverness will be able to think of a number, double it, and make that the charge, and fill three times over. That means he'll probably buy the concert at no more than a derisory guarantee against a fairly hefty split. Paul in Ayr has a smaller capacity and is in the central belt, but could still expect to sell out if he prices reasonably, and invests quite a bit in marketing. So he'll pay a higher guarantee, take a smaller split and add a marketing contra. We, on the other hand, in Yorkshire, would struggle for a half-full house, would face a big straight fee, and would lose massively. You could reverse the above process for booking a production by Hull Truck.

As Paul's comments serve to illustrate, the setting of price is, for receiving venues, not a simple matter of imposing a structure but a struggle for a fair deal with the producing company – even more so if the venue has no box office of its own or puts out its ticketing to an external agency. Pricing strategy has to be pragmatic in these circumstances. Craig Hassall, managing director of English National Ballet (ENB), describes this process of negotiation from the point of view of a touring company.

> Typically, the theatre will control the box office. And the case with the ENB, and I'm sure a lot of the touring companies, is that we don't simply go and rent the theatre. It's a risk share. The theatre foregoes its rent for a share of the box office and you negotiate the split between you and the theatre – generally, ENB takes 75 per cent of the risk, the venue 25 per cent – so the theatre then has a stake in the marketing, the pricing and so on. The theatres are usually not going to be as sophisticated in the pricing model as the company – and probably less likely to take risks as well. So it's difficult to negotiate with a receiving house, which is also a risk-share partner, on taking a risk on a passing strategy, because they want to do it the way they've always done it. They have 25 companies coming through in a year and, as a rule, they don't want to start catering too much to the idiosyncrasies of one of those companies.

> The other complication is that a lot of the theatres are owned by the Ambassador Theatre Group or Live Nation, so you don't even have the sense of a local market. You have a centralised ticketing agency, Ticketmaster, which just volume sells. Dealing with someone in London about a venue in Birmingham means that there's quite a disconnect with the human beings involved. They're not going to take a risk on a local buying or pricing strategy because they just don't have the expertise or the interest.

A negotiation over setting prices is often about squaring one strategy with another. When, for example, the London Symphony Orchestra recently tried lowering prices to draw in new audiences, two different pricing structures were literally embodied at their concerts at the Barbican Centre, where yield management approaches are focusing on maximising income. So, a customer who had paid the LSO £25 for a ticket sat alongside another who had paid the Barbican £65.

Which brings us to the audience, their perception of price and value, and the question of price sensitivity.

Does price matter? Audience perception of price and value

One of the more remarkable aspects of pricing in the arts, particularly in the areas of theatrical performance and live classical music, is its sheer complexity. In one detailed study of Broadway pricing carried out a few years ago, the researcher discovered that for one particular show there were, on average, 8.7 different price categories per night *out of a possible seventeen.*

One might picture how hesitant a customer might become, faced with that choice, cross-referencing each price on the seating plan, imagining the sightlines, perhaps, or wondering if the cheaper matinee the following day might be an option, but almost certainly mindful now of how much they want (or had planned) to spend – and conscious, too, that there may be competing attractions that might be cheaper or more fun just down the road or even back at home… If this had started out as a spontaneous impulse – the customer seduced by the posters outside the theatre and eager for the value of the experience they promised – it has quickly become a question of mental haggling over the cost. Angela Galvin, chief executive of Sheffield Theatres, questions why things have to be so opaque.

> In this sophisticated marketplace, pricing is the touchstone against which artists judge the value being placed on their work, and a benchmark for persuading audiences confronted with a cultural

> cornucopia that ours is the event to attend. Pricing secures our artistic and financial futures. Why then do so many arts businesses communicate prices across the whole range of marketing materials in logarithmic grids? With footnotes. And inconsistencies. It's the bit of the brochure that catapults the required reading age from twelve to forty-seven years.

Part of this complexity is due, ironically enough, to the enduring assumption that arts audiences are particularly price-sensitive and will appreciate a price tailored to them. Hence, the plethora of discounts and special deals, as if price were the determining factor in deciding to go to the event. The available evidence, however, suggests that both first-time and regular attenders are more likely to be attracted by the offered experience than by price alone: *the tickets cost me a fortune, but it was worth it.*

The Glastonbury Festival famously sells out on the spot. In the old technology days, punters would queue overnight to secure tickets for this kind of event; now, a finger hovers over the BUY button. Both then and now, price is really not the issue – and not, in these cases, because prices are low. The tickets for the last Rolling Stones' tour rose to over £100 – and were exchanged for considerably more on the black market. The perceived value of seeing the ultimate rock survivors perform outweighed any financial qualms – you know what you're getting with the Stones or Glasto, or you think you do. The price is – for the practical purposes of selling tickets – virtually invisible.

The same seems to apply at the other end of the market.

> I understand why things change and I put the reason for them changing precisely on the price of a ticket. It was different when everything cost $3, or $3.50, or at the most $5. You could pay to see a cheap *Jaws* ripoff and pay the same money to see *A Star is Born*, no worries. But now you're talking about $10, $12 – it doesn't make sense.
> *Quentin Tarantino, explaining why exploitation movies now go straight to video (**The Guardian**, Friday 4 May 2007)*

Quentin Tarantino's comment reflects a clear understanding that price can be critical in getting people to see your art, whether that is an exploitation movie of the kind he recently apotheosised in his own film *Death Proof*, or a Shakespeare play or a concert of new music or an exhibition of Old Masters. However, what is particularly interesting about this argument is that it seems to demonstrate that only when the price becomes *visible* to the customer do distinctions over the relative value of competing attractions become critical in deciding to attend or not. In other words, when cinema tickets were too cheap to be concerned about, customers would chance going to see less worthy or less commercial or less mainstream films or films that had no recognisable stars or directors.

Once price becomes an issue – something customers have to mull over before committing themselves – perceptions of value kick in. And all those films they might have gone to see end up, without fanfare, on the shelves of the local Blockbuster – until, of course, a customer or a video store employee (as Tarantino once was) discovers one and, given that the price of renting any DVD is relatively inconsequential, decides to give it a whirl – and thus discovers its true value.

It is also worth noting here that assigning higher value is, in some significant way, related to reducing the level of risk. With its high-profile stars and its artistic and dramatic qualities reinforced by good reviews and industry buzz, a film like *A Star is Born* would be a much safer bet for a pricey evening out than, say, the latest flick from a B-movie maker like Roger Corman. This should remind us that going to any arts event involves some level of *risk* – and that this is why vast numbers of people never darken the doors of the local theatre or gallery or arts centre. They don’t know quite what they are going to get, so they don’t know whether they would get anything out of it or even enjoy it – and, in some cases, they don’t feel they would even be welcome, judging by the building or the people who *do* go. Education and social habit play their part, too.

So, to sum up. In Tarantino’s example, the perceived value of going to see an unknown quantity was not an issue because the price was so low. In the case of the Stones or Glastonbury, the cost of a ticket was not an issue because the perceived value was so high. Either way, the risk of wasting time or money was rendered negligible, making a ticket sale more likely than not.

This example of ‘neuro-economics’ – the mental process that goes on when considering any kind of bet – demonstrates why managers should keep a careful eye on the wider cultural trends that affect how people are choosing to spend their money, time and energy. People’s perceptions of value do not remain static as the culture shifts. For example, the development of secondary marketing, otherwise known as scalping, has been given a huge boost now by the internet, and eBay in particular – and that will undoubtedly influence perceptions of value and thus the setting of prices.

Finally, we turn to how arts organisations might be able to move forward in developing their audiences by consolidating and maximising their revenue.

The lure of yield management: maximising income

> There is a latent conflict between access objectives and income optimisation which forms a constant ideological backdrop to ticket pricing.
> *Elizabeth Hill et al, **Creative Arts Marketing**, 1995*

A central issue addressed in this book is whether and how far pricing strategies might square the circle – that is, optimise revenue without compromising audience development and social access.

This is obviously a particular concern for managers of subsidised organisations, who believe they have a particular obligation to their audiences to keep prices low. How can they then draw in more than the usual crowd without discounting themselves into debt?

The question is whether by, in a sense, creating a dual-pricing policy, 'young-person's-railcard' style, the subsidised sector now has to live with the consequences and not be able take advantage of more commercial techniques to maximise revenue. A stark example of this difference is the curious tradition of *closing* a best-selling subsidised show while the West End is freer to extend runs – and product-test new shows. Subsidy seems to have made things more complicated. The need to explore what might be transferable from commercial practice is urgent, as Craig Hassall remarks.

> People should feel empowered to be a little commercial about pricing. Because the subsidy is the public support. You needn't keep your prices below what you could charge in the market. That's like a double subsidy. Just because we're subsidised, it doesn't mean we charge less if people can afford to pay more.

Craig's comment seems to point directly to the lure of yield management techniques, which are now being tested and applied by some arts and venue managers.

Yield management, first developed in the travel and hotel industries, can take many forms in the arts, but it is essentially about increasing yield by varying prices or price ranges. It can mean increasing higher prices at a slightly faster rate, while still maintaining low prices elsewhere. A few organisations are starting to use so-called airline pricing, where the price paid for a specific seat for a specific performance will vary according to when the booking is made. Prices might be increased at the end of the week, to increase yield and control demand – and this may stimulate more attendances earlier in the week. And so on.

Not everyone believes that yield management is the panacea. It is still probably too time consuming in a hammer-to-crack-a-nut way for smaller venues, while for organisations that pride themselves on providing a quality programme there are stages of the 'Easyjet route' they'd rather not go down. Chris Harper told me that when he was head of marketing at the National Theatre the rep system he served was 'too complicated to try that staggered price escalation'.

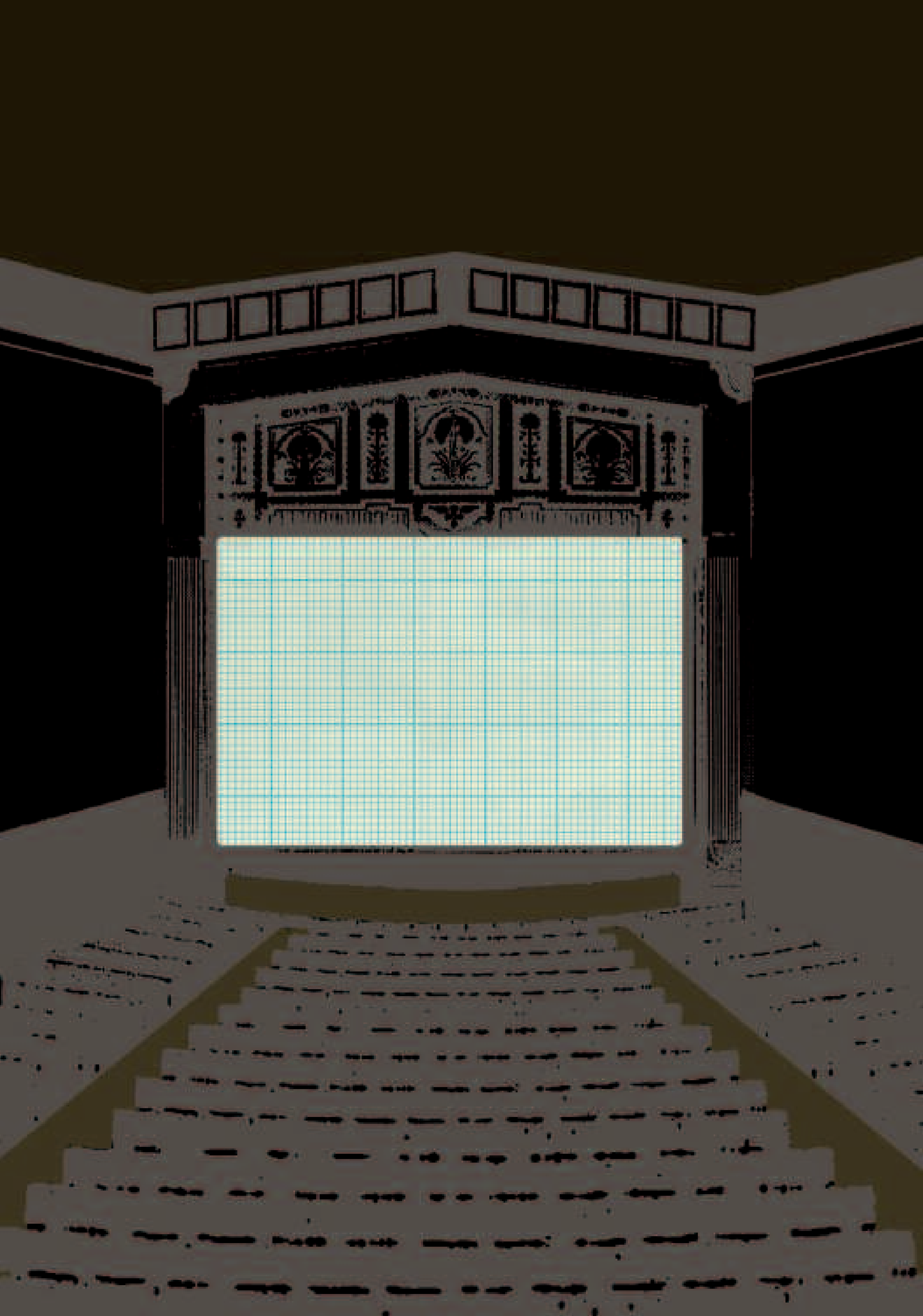
> The flight isn't part of the experience; I don't think that the theatre is comparable to an airline. The holiday's the experience and we're selling the holiday.

It is certainly true that theatre does not have the resources or indeed the vast amount of historical data needed to match the ability of airlines to predict how to obtain the highest yield out of each flight, so yield management in the arts may never be as reliable – this is the arts, after all, with all its risks of noble failure. However, just as the airline passenger will rarely wonder what the passenger next to them paid for their ticket, so audiences are now beginning to accept variable pricing.

For some, yield management is the future. Ticket prices will be delivered like stock prices, based purely on supply and demand. Until that point, the debates will continue – and do so, in the following pages.

Chapter One

What price epiphany?



This chapter outlines the historical and cultural context of current debates on value and pricing in the arts.

> When John Kemble tried to raise prices after the opening of the new Covent Garden Theatre in 1809, he provoked sixty-seven days of rioting and a public controversy that raged in the press for several months; he was eventually forced to give way to the supporters of 'the Old Price'.
>
> *John Brewer, **The Pleasures of the Imagination: English Culture in the Eighteenth Century**, 1997*

It would seem that pricing in the arts has always been an emotive issue and one that the popular media of the day can be relied upon to cover with some eagerness. For those particular theatregoers two hundred years ago, the value of the arts was not in question – they were clearly enthusiastic enough to take to the streets to defend their right to enjoy theatre. The problem lay rather in how that value had been translated into price and whether that price was perceived as fair.

In this chapter, Professor Robert Hewison goes back to first principles. Although this is a book about price, it has to address the fact that what people are looking for is value – and so we must examine the relationship between the two. He explains, via Adam Smith and John Ruskin, how 'value in use' differs from 'value in exchange' and describes both how we arrived at our mantra of 'value for money' and how the cultural sector is challenging that utilitarian viewpoint by arguing for the arts' 'intrinsic values'.

As a vital part of our economy, the arts are subject to the laws of supply and demand but they are also particularly vulnerable to cultural shifts, from popular enthusiasm for cultural products during the exigencies of wartime to our postmodern culture, where apparently infinite consumer choice is counter-balanced by ferocious demands on our time and energy.

What price epiphany?
Assessing the value of the arts

Robert Hewison

Buying a ticket for a show can be an unpleasant experience. The queue at the box office is long, the staff are surly, the show sold out. Telephone booking merely transfers the process to the ether, adds a booking charge, and you still have to queue up to show your credit card. The internet adds the worry over security of financial information. Yet when an arts organisation sells you a ticket, it is the beginning of a personal relationship. Before that, the company will have been communicating in general through advertising, reviews and word of mouth, but the message becomes particular only when money changes hands. The price of a ticket is as important a means of communication as the name on the marquee and the image on the poster. Oscar Wilde famously defined a cynic as 'a man who knows the price of everything and the value of nothing'. Cynicism, I might add, is the response of someone who – like punters who are told the show is sold out – is disappointed in their hopes. This is a book about price, but it is value that people are really looking for.

In the chilly world of economics, price is a monetary expression of the worth that individuals, groups or that abstract being 'the market' assign to an object or activity. Is the show worth the price of a ticket? From the seller's point of view, price will be a reflection of the costs of the raw materials involved, of the labour employed and of the additional overheads, such as maintaining plant, administration, marketing, taxation and so on. Setting a price should therefore be simple: add up your costs, stick on a bit extra to make a profit that can be distributed or reinvested, decide what you can get away with, and set out your stall.

But who will buy? From the buyer's point of view, willingness to pay will depend on a much more complicated set of variables, beginning with the ability to pay in the first place. To buy means to make a choice between buying and not buying, and between the range of objects and activities on offer. That will include a consideration of the ease or otherwise of getting hold of a ticket. Willingness to pay will depend on the utility the buyer attributes to what is on offer, and what importance they attach to that utility: *is this show a must-see?*

The amount the buyer is willing to pay will also be affected by the perception of the relative scarcity or availability of what is being offered: *how long is the queue, how hot is the ticket?* Thus, price is the monetised expression of a very complicated set of valuations. In real life, we have to take into account such unscientific things as emotions, and the cash element may be the least important factor in the equation. Many people complain that culture has become a commodity. Few appreciate that what we think of as commodity is shaped by culture.

Culture is the key to the fundamental distinction made in *The Wealth of Nations* (1776) by the founder of modern economics, Adam Smith: 'The word "value", it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing goods which the possession of that object conveys. The one may be called "value in use", the other "value in exchange".'[1] Value in exchange is reasonably easy to understand: it is the amount of money or goods or services that a person is willing to give up in order to be able to acquire certain goods or services. The idea is so neat and simple that many economists, including Adam Smith, have based their calculations exclusively on value in exchange. But why are we willing to exchange one thing in order to possess another? Because, presumably, that which we want to possess has some value in use – some utility – to us.

John Ruskin, in *Unto This Last* (1862), had a lot of fun with this problem, pointing out that many of the things that have the greatest value in use frequently have little or no value in exchange. The air we breathe would be a good example. Contrarily, many of the things that have the greatest value in exchange frequently have little or no value in use. Ruskin asks what is the value of the gold in the money-belt of a drowning capitalist as it drags him to the bottom. When we talk about value in use, the value lies not in the object, but in the use we make of it, and the nature of that use is our moral responsibility. In order to challenge the cold utilitarianism of Victorian England, Ruskin sought to redefine wealth as welfare and value as vitality, and even coined a term that summed up the true product of industrial society: 'illth'.[2]

The narrow economic calculations of utilitarianism have continued to be made, however, and from the 1980s on they have borne down ever more heavily on those working in the arts. Ruskin may have argued that 'there is no wealth but life',[3] but life has become harder and harder in the arts as the cultural sector has become subject to an ever stricter regime of accountability. The rule is not 'value for life' but 'value for money', defined as 'economy, efficiency and effectiveness'. The supposed efficiency of the market replaces the benign bumbling of bureaucrats, citizens have become consumers, and the results of creativity are reduced to products. To demands to deliver value for money has been added a series of tests that measure the success of cultural organisations, not in terms of the quality of what they do, but in terms of public service agreements that demand 'quantified improvements in outputs, efficiency, access, quality promotion, income generation or private sector funding', to quote PSA Target 14 of the Department for Culture, Media and Sport.[4] This is the language that defines the obligations the government places on cultural organisations to deliver social outcomes according to its political agenda.

The new utilitarianism is being challenged, not because cultural organisations disagree with the government's desire to improve social conditions in relation to health, crime, education and employment, but because the arts are an indirect way of going about it. What is more, a regime of targets, tables and testing does not sit easily with the less easily calculable outcomes of art. Indeed, by imposing external, instrumental requirements on arts organisations, the government makes it harder for them to carry out their core function, which is to make or present art.

That this is a problem felt right across the cultural sector was emphatically demonstrated in June 2003 when the National Theatre and the National Gallery came together to sponsor a conference, 'Valuing Culture', jointly organised by the think tank Demos and the cultural consultants AEA. The conference was attended by the Secretary of State for Culture, Media and Sport (DCMS), Tessa Jowell, who evidently listened to what was being said. In May the following year she published her essay *Government and the Value of Culture*, which acknowledged the difficulties caused by thinking of the arts purely in terms of economic and social outcomes. 'How', she asked, 'in going beyond targets, can we best capture the value of culture?'[5] How can we get hold of a ticket to ride?

Cultural value

Over at Demos, a senior researcher, John Holden, had been working on the answer, which he first gave in a pamphlet, *Capturing Cultural Value*, published shortly after Tessa Jowell's essay.[6] Holden does not deny that the arts bring economic benefits in terms of employment, exports and regeneration, or that cultural activity has beneficial social outcomes for those who take part. But he argues that there are other ways of valuing the arts that are intrinsic as opposed to extrinsic to what they are and what they do. Drawing on a range of different disciplines – anthropology, environmentalism and brand valuation –

and different theorists, notably the Australian cultural economist David Throsby and the American expert on administration Mark Moore, who has popularised the concept of 'public value',[7] Holden proposes that there are several ways in which an object or activity can be said to have *cultural value*. These can be summed up as:

- use value: it engenders expenditure that supports jobs and further economic production
- existence value: even though only a certain number of people may directly enjoy something's 'use value', the fact of its existence creates an opportunity that others may enjoy it at another time, or are simply content that it exists at all
- bequest value: it represents something that people will be able to pass on to future generations
- historical value: it constitutes a link between the present and the past and locates people in time
- social value: its enjoyment is a collective as well as an individual experience, and can strengthen social bonds
- symbolic value: it generates symbolic meanings that are expressive, for instance, of individual or collective identity
- spiritual value: it has the capacity to produce feelings of the numinous or the sublime
- aesthetic value: it generates feelings of visual and/or auditory delight.

There are, as David Throsby has shown in his book, *Economics and Culture*,[8] ways of monetising these values so as to come up with a price, in what is essentially a sophisticated form of opinion polling, but that is not the point here. Cultural value is a way to re-engage with the quality of the experience of art, to re-legitimise the discussion of those aspects of the experience that evade numerical quantification. While as individuals we may be prepared to give money to enjoy some or all of these values, unless we keep the object exclusively for our own delectation – like a painting in a vault – we do not in fact own them, and even then we only control access to the work, not the value of the work itself. They exist as public goods which, being public, are price*less*.

The debate about cultural value has put the concept of value-in-use back into value-in-exchange, and the fact that politicians are prepared to take part in the debate offers hope that those who set the terms in which cultural price transactions take place do, in fact, appreciate the significance of the numinous as well as the numismatic. But price has its uses, since we need a way to turn the infinite number of individual decisions about what something is worth into a figure that is practical to apply. When it comes to setting a price for cultural goods, as, to be realistic, we have to, there are some real-world factors relating to scarcity and competition that have to be taken into consideration. Culture cannot entirely escape the clutches of the laws of supply and demand, though as we will see, it tries.

The challenge of affluence

Arguably, the last time the arts in Britain enjoyed a competitive advantage over many other goods and services was during the Second World War. One of the reasons that they did so demonstrates the enduring power of cultural value: people found, especially in poetry and music, a spiritual resource that comforted them in anxious and dangerous times. Equally, the demotic tradition and free speech of the British stage seemed to be one of the things that people were fighting for. Yes, there was a desire for escapism too, but the demand for serious reading was such that you could sell almost anything – provided you could get the paper to print it on. Paper was rationed, like almost everything else, and scarcity adds a value all of its own. While full employment guaranteed a certain level of disposable income, the goods that people generally like to spend it on – food, clothes, holidays – as well as many essentials such as furniture, were in short supply.

This combination of factors, cultural and economic, meant that people were more ready to spend what money they had on the arts. The arts were also in short supply, and it was in order to guarantee a supply of concerts and stage performances that for the first time a British government began to subsidise the performing arts, through grants and tax relief. Libraries, museums and art galleries were already publicly funded, since the Victorians considered them to be conducive to public education and national sobriety, but from now on governments – via the Arts Council of Great Britain and its successors – had to wrestle with the irresolvable questions of what was art and what was entertainment. It is worth recalling that during the war entertainment had also been regarded as a public good, supplied by ENSA, the Entertainments National Service Association, to keep war workers on the go.

Since the war, affluence and availability mean that the arts have lost their temporary advantage, but at least in terms of disposable income there is still something to play for. Not only are we individually (or at least most of us) far better off than people were fifty years ago, but the amount of our income that we can spend as and how we like has also increased as a proportion of our overall income. The Henley Centre for forecasting has tracked so-called discretionary spending in the United Kingdom since 1976, and predicts that it will continue to rise.[9]

The problem for arts organisations is how to steer enough of that spending their way. Not only are all those goods that were scarce or unavailable in wartime piled high and in abundance, the culture of consumption is such that a pair of jeans is no longer a useful item of workwear, but a fashion statement, an expression of identity – in fact, a form of culture. 'Style' is an elaborate symbolic code signalling status, sexual availability and, above all, a sense of self. It also plays a crucial role in encouraging the circulation of commodities by using symbolic goods to enforce fashion's endless cycle of redundancy and return. With such creativity on the High Street, there is no need to go into art galleries, when so much time can be devoted to the semiology of the sock.

And time is now an issue. While we have more and more disposable income, in order to earn it we have less and less disposable time. What is worse, those that have the most time, such as the retired and the unemployed, may well have the least money. The consequences of being cash-rich but time-poor are having a noticeable effect in the theatre, where since the turn of the new century plays have become distinctly shorter. The three-act structure, with two intervals, has disappeared, and many new plays have no interval at all. Contemporary dance appears to have led the way, where the physical demands are such that performances are limited by the performers' endurance, but the concentrated intensity of the piece generates audience satisfaction – and allows you to have something to eat afterwards. There does not appear to be public resistance to shorter performance times – indeed, they seem to be welcome. So here is a new factor in the price/value equation, and a new twist to the old adage that time is money.

Market failure

The problem of price setting in the cultural sector is complicated by attempts to introduce non-monetary considerations that will affect monetary outcomes. In the abstract world of economics, the invisible hand of the market will determine price through the inexorable operation of the laws of supply and demand. But when we look at the operation of the economics of the arts, we find that conditions are determined not by the invisible hand of the market, but its opposite, market failure. Market failure occurs when it proves impossible to produce certain goods in sufficient quantity and/or at an acceptable price to justify their existence in purely monetary terms. As far as the market is concerned, the sums don't add up. The result is that the market fails to produce, or under-produces, cultural goods such as art, literature, orchestras and new political plays, and it is difficult to protect desirable landscape or historic properties from the depredations of developers. The market has been altered by regulation – as in the case of green belt land and heritage properties – or by state or private philanthropy that ensures, through subsidy, that there is a sufficient supply of socially necessary cultural goods.

One of the reasons that the arts are particularly susceptible to market failure is that they are unable – outside books, film and recordings – to reproduce their creations in sufficient numbers to exploit their success beyond a certain level. (It is because books and recordings are repeatable that they represent a different form of competition, as it were, between perishable and non-perishable cultural goods.) Nor can the arts easily achieve economies of scale. You cannot downsize a symphony orchestra, nor can you upscale an auditorium without radically altering the audience experience. So, the visible hand of patronage, persuaded by those arguments for cultural value that were rehearsed earlier, reaches in. It does not matter who the patron is (though what is demanded in exchange for patronage means it is rarely disinterested); the market is now distorted, with consequences for both those in receipt of patronage and those who are not.

Thus, we find ourselves in the paradoxical position that the subsidised cultural sector is in competition with the unsubsidised, rather as the BBC is in competition with commercial broadcasting. But while there are obvious advantages, in terms of survival, in not having to make a profit, there is a cost in terms of the expectations placed on a company that receives public money, be it from taxation or the National Lottery. The right to fail artistically seems to come with a fair number of obligations to succeed in terms of policy outcomes. In practice, in the arts the two sectors are mutually dependent. The commercial sector looks to the subsidised to take risks and invest in training; the subsidised looks to the commercial sector to exploit their creations in such a way as to be able to reward them with a share in the profits, and so continue to function in the pursuit of the generation of cultural value.

Audiences are largely indifferent to the issue of equity between the commercial and non-commercial sector, and are happy to be served by a mixed economy. They buy tickets on the basis of what they want to enjoy, not whether the producing organisation is subsidised or not, and in any case price levels will tend to converge on what the market will bear. There is rough equivalence in the pricing structures of the two sectors, in so far as the commercial sector is present at all. (What they can't make a profit from, they don't do.) A top-price ticket to the venerable *Mousetrap* at the St Martin's Theatre cost (in 2006) £37.50, exactly the same as a top-price ticket to a production at the National's Lyttelton Theatre. Musicals (a commercial sector speciality) are more expensive, with a top price around £55 (a 400 per cent rise in twenty years), but then opera can be expensive too. Raymond Gubbay has so far managed to find ways of avoiding market failure by generating a genre of 'arena opera', but for the most part opera is a subsidised sector speciality where modest seats are comparable to those for a musical, and a top ticket at the Royal Opera House will cost £180. National museums that are funded not to charge entry fees have an advantage over independent museums, but tend to charge similar fees for specially mounted exhibitions. The Royal Academy, which is not publicly funded, has a current top price of £9 for an exhibition, the subsidised National Gallery the same for a temporary show.

The tendency for there to be price convergence across the cultural sector is not really surprising. Benchmarks are established by prejudice and custom, rather than careful sums on a pocket calculator. Under pressure to justify the existence of public subsidy, from time to time people have made price comparisons between ticket prices in the arts and say, rock 'n' roll or football, as some contributors to this book do. It cost at least £80 to see the Rolling Stones in Britain in 2007. It costs between £45 and £95 to see a Premier League football match as an adult who does not belong to a supporters' club. But surely these offer different forms of social experience. The real competition is between different judgements of cultural value; price considerations are secondary. The same is true of other forms of consumption. Dinner at The Ivy, opposite the St Martin's Theatre, will cost you considerably more than *The Mousetrap*, but, though both are ephemeral experiences, they are not really comparable when it comes to calculating price. The competition between The Ivy and *The Mousetrap* (assuming you can afford either) is cultural more than it is economic – fine French cheeses, or mousetrap.

Public interest pricing

Prices, in whatever case, have to be set. When it comes to calculating what they need to charge, arts organisations have to consider three different sources of income: state/local authority subsidy; commercial and private sponsorship; and commercial activity, including shops, restaurants, publications, conference and other hires – and of course tickets. As has been shown, the existence of subsidy will distort the situation when it comes to pricing. Only the Adam Smith Institute, at the height of Thatcherism in 1987, has argued that the existence of public subsidy is positively harmful, seriously proposing 'a three- or four-year programme over which the Arts Council's grant would be reduced to zero' – and even then it had to admit that the national museums would not be able to survive without state help.[10]

Unfortunately, all attempts to regularise and rationalise cultural statistics seem condemned to failure, and it is very hard to find longitudinal studies, or even studies that use sufficiently comparable categories, to make a direct comparison with today. But it does appear that public subsidy has fallen as a proportion of publicly funded arts organisations' income since the Adam Smith Institute started promoting its Thatcherite arguments in the 1980s. One reason is the growth of business and private sponsorship, which Mrs Thatcher's government was keen to promote. This combined source of funding is sensitive to economic conditions, but the trend has been upwards.

An arts organisation will be proud to be earn its keep – and possibly earn more independence from the policy objectives of its funders at the same time – but there are two lessons to be learned from this trend. The first is that, in spite of substantial real increases in cultural subsidies, the pressure is on organisations to earn more. With public funding expected at best to plateau, organisations are going to have to be ever more careful about how they manage their pricing.

The second point is that we need to be more articulate about what might be called 'public interest pricing'. Just as cultural value is a way to express the non-monetary objectives of arts organisations, public interest pricing would be a way to indicate the particular policies towards its audience that an organisation has. This should go beyond the standard 'concessions' for pensioners, unwaged, etc and be seen as a way of creating positive value. As I have already suggested, pricing is another way an institution has of communicating with its public, and how an arts organisation communicates can be as important as what it communicates.

Again, we have John Holden of Demos to thank for showing that arts organisations are not only creators of cultural value, but that the way they behave creates a further range of values that he calls 'institutional value': '*how* organisations operate is as important as what they strive to achieve'.[11] This is more than making sure the coffee is hot and the lavatories are clean; it goes to the roots of the way an organisation sees itself, how it defines its purpose and how it expresses its values in relation to the public. In *Cultural Value and the Crisis of Legitimacy* (2006) he develops the concept of institutional value to argue that the tripartite relationship between the public, the professionals who manage cultural organisations and the bodies responsible to politicians that fund them is breaking down, and that the mismatch of objectives is causing the cultural system to become 'a closed and ill-tempered conversation between professionals and politicians, while the news media play a destructive role between politics and the public'.[12]

The reason for insisting on the importance of institutional value and the role that ticket-pricing has to play in generating it is that arts organisations have to recognise that they are more than sites for the presentation of objects or activities that have cultural value: they are themselves the creators of value through their relationship with the public and through the way they work within themselves. So a ticket will not simply be a *billet*, but should be handled like a *billet-doux*.

The cultural economist David Throsby argues that economists are 'deluding themselves if they claim that economics can encompass cultural value entirely within its ambit and that the methods of economic assessment are capable of capturing all relevant aspects of cultural value in their net'.[13] Surprisingly, for an economist, he goes on to argue that the dominance of the modern economic paradigm must be resisted: 'it is essential that cultural value be admitted alongside economic value in the consideration of the overall value of cultural goods and services'.[14] In other words, we must reframe Oscar Wilde's dictum and say that before we can set the price of something we must understand the value of everything. As cultural organisations are already well aware, their duty is to create epiphany. Later, they can worry about the price.

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Fighting its corner

Hall for Cornwall's eclectic strategies

As the only purpose-built professional arts venue in Cornwall apart from Tate St Ives, Truro's Hall for Cornwall faces several major challenges, though perhaps none as life threatening as the initial loss of £300,000 in its first year, 2000/01, when the Lottery money ran out before it could be used to run what it had built.

Once relatively rich through fishing, farming and mining, Cornwall resembles one of its own numerous holiday homes, unoccupied (and not earning) most of the year. It's a low-wage, fragile economy and, coupled with a small scattered population, that can't help but have a major impact on pricing strategy. What its director, Tim Brinkman, calls 'a great space' has to be filled – and with a great variety of events. It's a flexible auditorium, with a maximum capacity, when the seats are folded away, of 1,700. This means, theoretically, that a two-week sell-out run could swallow up Truro's entire population (around 18,500): one way of demonstrating that Hall for Cornwall has to reach out much further for an audience than most city-based venues – thirty miles on average.

A varied programme

To do that, Tim has to programme eclectically. There is theatre, from the touring production of *The History Boys* to co-productions with the indigenous Kneehigh Theatre Company; music from classical chamber concerts to Coldplay and Morrissey gigs; there is an ice show; and there is dance, from ballet to contemporary. Each event is priced separately, with five price bands and a range of concessions; more likely sellers are priced more highly. Before committing to a production, Tim has to calculate how many of each ticket-type buyer will attend, allowing for up to 45 per cent on concessionary rates for each performance. It's a simple, traditional approach, based on steadily building up a history of what sells and to whom, but it seems to pay dividends: 180,000 tickets are sold each year and houses are on average 68 per cent full – and it does not prevent the introduction of more adventurous work to what is often perceived as a conservative audience.

A couple of years ago, Tim took a ‘terrifying risk’ in presenting the only southwest date for dancer Wim Wandekeybus’s tour – and it sold out, since when he has continued to demonstrate that there is an open-minded local audience who happen to enjoy cutting-edge dance. Tim has resisted pricing such events down, as he feels that would cheapen them, but there is a small, though clear, price differential between them and safer choices. A top ticket for Rambert Dance Company or Birmingham Royal Ballet would be £21, that for Nederlans Dans Theater £18.50 and, for a lesser-known company, £16.50.

Economic realities

Flexibility on pricing does not extend to concessions, where Tim would prefer to mediate prices, shifting the number of seats within price bands, rather than change any concessionary deals. So, while venues elsewhere might, for example, ‘Volvo count’ and reduce concessions for older people, on the basis that many are able to pay the full price, such a policy in Cornwall would be hugely controversial.

The economic environment also means that Tim, as director of a receiving house, has to strike sensible box office deals with incoming companies that may be more used to playing in wealthier regions; he asks them, for example, what they would charge in Darlington or Hull, rather than Manchester or Birmingham. Part of the bargain he strikes includes passing on to the promoter the credit card charges that might otherwise be passed on to the customer. Instead of a booking fee, Tim has instituted a 75p levy on tickets to go towards a ‘theatre development fund’, cash income that he can retain as an essential element in investing in a future for Hall for Cornwall.

With thanks to Tim Brinkman
Hall for Cornwall, www.hallforcornwall.co.uk

From novice to strategist
Learning to price at the Royal Centre Nottingham

In 2001, Jonathan Saville was brought in as head of sales, marketing and development for the Royal Centre Nottingham, which comprises the Theatre Royal and the Royal Concert Hall. The job description is wide-ranging, from box office management to corporate development schemes, but pricing is a central responsibility. Like many managers given such a wide brief, Jonathan had no actual training in pricing so, to begin with, he 'cut and pasted' (his own words) from old prices. He based his pricing structure on top price for dress circle, second highest prices for front of stalls, third for back of stalls and lowest for balcony. This was a rather blunt instrument, he discovered, so he sent for the cavalry, in the shape of a leading pricing consultant who helped Jonathan to identify areas of underpricing and ways of increasing yield. Jonathan says that he is now 'selling the same seats to the same people for the same kind of shows but making more money'.

The most vital pointer the consultant gave him was to identify what sold well first – it happened to be centre stalls and the dress circle – and to price up accordingly. Jonathan is now rigorously enforcing five pricing bands, even where prices of some bands for some shows are the same – so, for example, band A might be £16 and band B £14 but bands C, D and E might all be £12. The differentials are never more than £5, often less, apart from the balcony, which is steep and can have a limited view, where the difference can be anything from £5 to £12. This rigour extends to never altering the prices over a run, even one of six weeks; if the production runs into trouble, Jonathan markets it through special promotional deals (eg three for the price of two) with a newspaper or a radio station. Turkeys he just has to live with.

The dangers of discounts

Jonathan has learned to avoid cut-price deals: 'they cause more problems than they solve'. Some of these problems are the result of a frustrating box office system that is capable of mailing special offers to people who have already booked. There was the case of the six women who booked the tickets as a group. Because a different member of the group had booked the tickets this time around, the usual booker received a £10 half-price offer in the post – which led all the women to complain that they had been charged full price. There is also the danger of creating an expectation of discounted tickets. Jonathan cites a show at a nameless UK theatre where a show was not selling until the box office got a call asking when the discounted tickets would be available, 'because you always do it'. The theatre stuck it out and the show did sell – but nail-bitingly late in the day.

The example of other venues is important for managers learning to price effectively. Jonathan continues, like many managers, to share thinking on shows and prices with similar venues – including, in his case, Birmingham Hippodrome, Theatre Royal Plymouth and The Lowry, Salford. He has recently, for example, emailed half a dozen to get a feeling for pricing an Alvin Ailey American Dance Theater show – getting five replies indicates it is a mutually supportive system. Also vital to Jonathan is the support he receives from his managing director who, even though he is 'not trained in marketing', recognises how central pricing strategy is to realising the theatre's vision.

All systems go

Jonathan is now moving forward with the procurement of a new box office system and is planning to expand internet bookings, which currently account for 20 per cent of sales. He refers to one venue which went from 14 to 40 per cent almost immediately with a more sophisticated system. Historically, there has been no audience development. Another consultant confirmed that their understanding and usage of audience data was not really giving them the best information to enable them to actively target more potential customers. So the theatre has now appointed a customer research and memberships officer to take it into the realms of CRM – customer relationship management. It is all a far cry from 'cut and paste'.

With thanks to Jonathan Saville
Royal Centre Nottingham, www.royalcentre-nottingham.co.uk