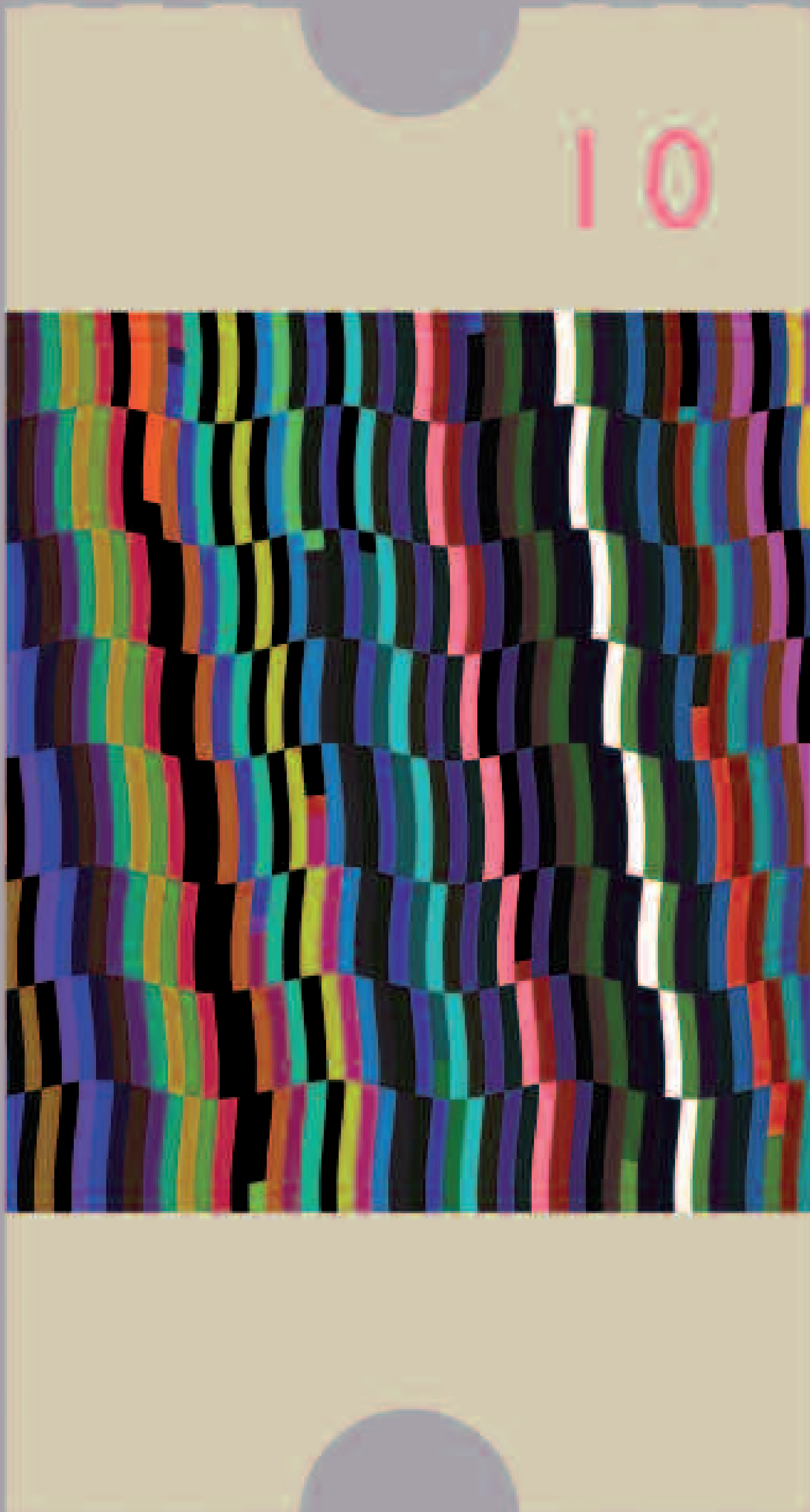
Chapter Six
Squaring the circle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This book began by asking, among other things, whether pricing actually matters or not. It ends not with a definitive answer but with two contrasting full-length case studies that fruitfully keep that question open and alive.

The first is the case of the National Theatre and its Travelex season, begun in 2002/03: 'calling it a tenner' seems to have paid handsome dividends financially and in filling summer seats, though whether it has, as yet, dramatically improved access to less well-off audiences is less certain. Price has mattered crucially to its success.

The second is the case of the Barbican Centre, another flagship company in the capital, which introduced a yield management strategy, also in 2002/03, and which has demonstrated, at least to its own satisfaction, that price no longer matters as much as it did, as long as the product is right – and as long as people know where to find it.

As the other chapters and stand-alone presentations here have demonstrated, there are no definitive answers in pricing, or for that matter in any other aspect of creating, producing, marketing or selling the arts. The two venues profiled here are comparatively vast operations, but the strategic process each has gone through – and which they constantly revisit, interrogate and refine – is one that every arts organisation and venue selling tickets needs to go through in their own way.

Behind both case studies, contrasting though they may appear, is a tacit assumption, well expressed here by another experienced manager responsible for pricing:

> Pricing strategies only work when the thing being bought is precious. If the art is awful or the artistic strategy incomplete, there is no price at which tickets can be shifted and, therefore, no need for a strategy. There should be a major distinction between filling seats and selling them, which require two utterly different approaches.

Squaring the circle
Does pricing actually matter?

Richard Ings

Price matters (quite a lot)
The National Theatre Travelex season

> So, to summarise: you've got 90 per cent capacity, you've had a huge gross in the box office – and ticket prices have fallen. Overall, lots more people are visiting so you're not just selling more tickets to your current audience, but you are appealing to a bigger audience. More new people are coming in but you've had no drop-off in your retention rate. So, although these new people haven't been before, they're still just as likely to come back as those who came five years ago, when all the prices were £37.50 or whatever. And you have some evidence that your subsidy is being shared over a more representative cut of the population.
> *Sarah Hunt, Director of Marketing, National Theatre*

A special case: the values of a national theatre

The National Theatre is a special case. Despite the formal addition of Royal to its name, it remains the elegantly concrete expression of a long nurtured ambition to have a theatre for the *nation*. Even if it received no public subsidy – it does, of course, to the tune of £18,288,000 – it would probably still be expected to live up to the democratic implications of being a national theatre. Robert Hewison's argument that arts organisations need to recognise that they themselves are 'the creators of value through their relationship with the public' could have no greater relevance than here – where pricing has to be seen to be 'in the public interest'.

Yet, the National has to fight its corner in a world that is founded rather more on profit-making than on high-minded altruism or on meeting social or, indeed, cultural responsibilities. Its most immediate competition, in terms of rival local theatre, is the West End, where the identity of an individual theatre is far less significant in selling tickets than the appeal of its current production or the stars involved in it. No one is surprised when a hot ticket in the West End costs a lot, but a decision by the National to introduce premium pricing for its own more popular shows would almost certainly raise hackles among its audiences and those who see themselves as their champions, the critics, and beyond them, the public funding bodies. So, the National cannot blithely go where others may lead; a less accountable theatre experiencing an unexpectedly successful run might feel freer, for example, to dabble in yield management techniques and reduce the proportion of cheaper seats available over the last few weeks. The National is more inclined to improve the value of what's on offer to the public than to squeeze them for profits.

Artistically, too, the National has a lot to live up to in terms of public and critical expectations. The programme and the way it is presented by directors, actors, set and costume designers and the rest has to match an ideal; a national theatre should be showcasing and promoting the highest-quality work as well as making it available to the widest possible audience. So, on the one hand the perceived value of what is on offer at the National has to be high, while the pricing of it needs to be relatively modest.

This is not always the case with a major performing arts venue; a short distance away, in Covent Garden, the Royal Opera House, which is also in receipt of generous public subsidy, is expected to seek and provide great value in its opera and ballet programme, but its pricing is also comparatively high. The cultural context in which these two venues exist may look similar but each takes – has to take – a different strategy to sell tickets and build audiences.

It is not just the National Theatre that is a special case – *every* venue and *every* touring organisation are special cases. Each one has to devise its own solutions to the conundrum of satisfying both 'access objectives and income optimization' through its own pricing strategy. When someone gets it right, however, the temptation might be to borrow that strategy wholesale. The National Theatre's Travelex season seems, in many ways, to have got it so right that it has created a ripple effect across not just the theatre world and not just in this country.

One simple idea: what led to the strategy

> Travelex had repercussions for us throughout the whole organisation but what was so good about it was that it was just incredibly *simple*. That was the genius of it. It was one simple idea which was inclusive, not exclusive.

The Travelex season was the brainchild of Nicholas Hytner, the newly appointed artistic director at the National, and Nick Starr, executive director. Looking back on it, Chris Harper, who took up the post of director of marketing not long afterwards, believes that the original impulse was as much to solve an artistic problem as a financial one, and more to do with developing audiences than increasing box office income – a philosophy his successor, Sarah Hunt, adheres to.

> As a subsidised organisation, if we can secure more or less the same income but draw in 25 per cent more people, it's good evidence that we are making public subsidy go further. That's a tremendously important factor in our thinking.

Back in 2001, the National had shifted from an increasingly expensive repertory system to a new pattern of long runs. Classic musicals – like *South Pacific* – were relied on to make up the financial shortfall over the summer and achieve an average 65 per cent capacity. To the sales and marketing eye, this meant primarily rather too many empty seats – and, turning to the membership database, which showed a loyal (and valued but ageing) audience, it seemed likely that there would be even more empty seats in the not-too-distant future. From an artistic and promotional perspective, there was a distinct lack of buzz around the summer season. Of course, the two views were reflections of the same problem and led to the same question: how to attract a larger audience to a more adventurous repertoire if they were, as the data demonstrated, unwilling to try out other kinds of shows on the National's menu?

There was the added challenge of the auditorium itself.

> Of our three theatres, the Olivier was the most difficult to programme. We were finding that playwrights weren't writing for it, because it was just too ambitious a space. Musicals were a good answer but just how many more musicals could you programme? We knew that this was not a long-term solution. We needed to find a concept that made the Olivier Theatre an attractive place to work in and to write and design for. We were looking for an artistic answer to our problems as well as a financial one.

Beyond trying to solve all this was the desire, as Chris puts it, 'to create something that would make the National Theatre *national* – something that would really grab the headlines'. So, once again, this was a question of how to sustain the National's reputation for public value. The answer was simple and it came down to price – just the one price. A low one.

A joint effort: creating the strategy

> The genius of the £10 season is that it wasn't a discount. It was just the price.
> *Chris Harper*

Historically, the National's ticket prices shadowed the West End. Its top price in 2001 was £32; the West End's was around £42.50. The practice of setting prices to match those of peer organisations, still pursued by many venues, is based on a very narrow analysis of what the competition actually consists of. The benchmark that the National now set for this new pricing venture was not a rival theatre's pricing breaks but a much simpler equation: the cost of a cinema ticket.

> We felt we were potentially losing an audience to cinema. Or an audience who might go and buy a paperback for £9.99.

There had also been a precedent for lower pricing at the National itself, set by Nick Hytners's predecessor, Trevor Nunn. This was a season called 'Transformation', where new work was done at reduced ticket prices; in retrospect, this appeared to be a tipping point, showing that people could be tempted into taking a risk and book for a play that they didn't really know very much about.

Nicks Hytner and Starr decided to go for simplicity: a new single price offer – a £10 ticket – to draw in enough people to fill the Olivier's seats over the summer. Selling the whole auditorium at that price wouldn't work financially, but by looking at the architecture of the building they were able to price two-thirds of the auditorium at £10 and charge £25 for the centre stalls. As a lot of members were perfectly happy to pay an increased rate for the better seats and as centre stall seats had been priced previously at £32, this also represented a substantial reduction. When they worked out the numbers, they discovered that if they managed to sell *all* the tickets at these new rates, they would make as much money as they had normally budgeted for with 65 per cent capacity at conventional prices. (The removal of discounts meant that there would also be a much smaller percentage point difference between physical occupancy and financial yield; ultimately, it dropped from 15 per cent to around 5 per cent.) Overall, this was a risk that looked worth taking artistically and in terms of audience building, but it was still a risk financially, especially for a publicly subsidised company. Which is where Travelex came in.

Sponsorship is, of course, the essential ingredient without which any attempt to emulate the National's approach may well come undone (and, apparently, has in some cases). Travelex, the world's leading international payment and foreign exchange company, agreed to underwrite the risk (to the tune of approximately £2.5m over six years of sponsorship) for a number of sound business reasons, based ultimately on shared values. As Chris explains, this new price offer was truly *inclusive*.

> It was available to everyone – you didn't have to be someone to get it. You didn't have to be young. You didn't have to be old. You didn't have to come on a Tuesday. You didn't have to come on a midweek matinee. It was just a big, open, democratic space. It was about customer experience, good entertainment, quality… Travelex felt that its own values fitted very much with ours.

A good enough fit, in fact, for a three-year deal to be renewed for a further three years at the end of 2005. What made the deal sweeter for the sponsor was the National's decision to call it the 'Travelex £10 season', not 'the National Theatre's £10 season, sponsored by Travelex' or even just 'the £10 season'. Counter-intuitively, perhaps, this has also proven useful to the National. Rather than confusing the public by introducing an alternative – and cheaper – brand to rival its own 'core' operation, the Travelex £10 season has had what Sarah calls 'a halo effect'. The latest available figures indicate that income is up throughout the National's operation and that this may be due, at least in part, to the long-term impact of this scheme. That impact was, it should be remembered, electric from the outset.

In terms of filling the auditorium, the first Travelex £10 season, in 2003, succeeded like a dream. Even the unknown quantity among the first four productions – *Tales from the Vienna Woods*, which ended the season – sold 75 per cent of tickets, because the risk had paid off for audiences as well as the theatre. Shows sold out over that first summer and attendances have since averaged out at 93 per cent capacity.

Price can never be entirely disentangled from product, nor can product be free of financial considerations. The decision that Nick Hytner made, to mount not the tried and tested classics he had first mooted but more unusual dramatic fare, played a vital part in the success of that and later seasons' success. Indeed, for Chris, the most important aspect of the Travelex initiative was its artistic impact – again confounding expectations, a tighter budget paid artistic dividends.

> Nick felt very strongly that these shows needed to have a bold muscular feel to them. We reduced the production costs to between a third and a quarter of what we might have spent on an original Olivier Theatre show. That forced directors and designers to think of the play that they were doing in a very bold muscular way. It was about a reinvention of the play rather than relying on

> scenic design to provide the look and feel of the show. That was one of the things that appealed most to directors and designers.

Any worries that this enthusiasm would be short lived have since been dispelled, according to Sarah and her colleagues.

> Would there be a shortage of directors and designers who were prepared to go for that sort of aesthetic? No – in fact, quite a number are really keen that their shows are part of Travelex. In one sense, it's an emotional thing – they want to be part of a good thing. And then there's the creative challenge of staying within the budget – as a designer, you come into it knowing that the budget is going to be, say, £75,000 and that, if you've got a cast of twenty, all of that could easily be used up on costumes.

This sense of joint effort – each element in a production pulling together to make it work – seems to reflect the way in which the National as an organisation, driven by the personal involvement of the artistic director, has taken on the Travelex £10 season and its implications. Nick's direct appeal to arts editors and theatre critics over the National's new approach also paid off handsomely: usually the subject of ill-tempered complaint in the press, theatre pricing for once earned glowing headlines.

Above all, the simplicity of the offer made it much easier for the National to market it to the public.

A price, not a discount: audience development

> We just wanted the Olivier Theatre to be full.

As Chris's comment makes plain, the Travelex season was, in one (reductive) sense, simply about multiplying the proverbial 'bums on seats'. And new people certainly came in. In the first year, 32 per cent of the audience had, according to the data available then, never been to the National Theatre before – and these newcomers have since been responsible for the considerable increase in box office income; members' spending has remained relatively static. Although numbers of first-timers were growing before the Travelex initiative, there was a sizeable leap in 2003 from just over 30,000 to over 45,000; a smaller increase on that figure, taking the number over 50,000, occurred the following year, though it dipped back by that same amount in 2005.

The challenge, of course, is to turn first-timers into repeat visitors. Remarkably, the data demonstrates that, despite the inflation in audiences, the retention rate of around 30 per cent has remained unchanged over the last five years. In other words, there are more people attending for the first-time and a substantial proportion have come back for more – in 2005, nearly 28,500 of them. This has been achieved despite – or perhaps more accurately, because of – a less traditional repertoire with different production values being on offer. According to Sarah and her colleagues, a growing trust in this repertoire and the price are equally responsible for people coming back for more.

> It has to be about price as well, because one of the reasons for going into this originally was that we had had very disappointing returns for straight plays in the Olivier during the summer period. The strength of the price offer is hugely important, particularly as we're not saying, *this is a really difficult play, so we're only going to charge you £10 for it, because we don't think you're going to enjoy yourself that much.* We were just trying to get people back in and we were sort of socking them with two things. One was saying look at the prices and the other one was saying *now look at what's on offer.*

Audiences have certainly recognised how reasonable the £10 price is – including the National's core audience. When someone suggested giving existing members an option to make a donation on their membership forms, it generated, in the first season, £40,000 from members who added donations when they filled out their booking form. Income from donations has fluctuated somewhat since (only £7,500 in 2005/06 but back up in 2006/07, to £26,000), but it serves to indicate an impressive level of goodwill towards the National and its new attempt to build audiences.

Observers of the Travelex phenomenon have sometimes assumed that the National wanted primarily to attract younger or less well-off audiences; a few believe that this is something that the National claimed to have achieved right from the first season. Hence, the excitement in some quarters that here at last might be a more reliable and lasting formula than many of those tried out, for example, as part of the Arts Council's New Audiences Programme.

However, even at the early stages, the riskier programming choices and the flavour of the directorial approach smacked of a desire to draw in a younger, hipper crowd – and keep them coming back. Whether it might draw in new people from poorer socio-economic groups in the process was moot; in terms of diversity, programming, rather than price, was seen as the prime way to develop more ethnically diverse audiences.

The National had, in the past, tried its fair share of pricing tactics to fulfil its commitment to accessibility: a 'Playmate' scheme for students, Paul Hamlyn nights for young people from disadvantaged backgrounds and a range of what might be called boutique schemes. As attempts to rejuvenate and grow audiences, they ran into the usual sands.

> They were all very good in their intentions and on a report they looked great, but did they really deliver a new audience? Many of them allowed you to, say, book a ticket for a fiver on a particular night if you hadn't ever been here before. However, they were a very expensive and labour-intensive way to build a new, long-term audience.

Such one-off initiatives also tended to be costly to market and, overall, produced a somewhat scattergun approach to building audiences and increasing ticket sales. The Travelex £10 season was, in contrast, a pricing weapon of mass seduction aimed at new audiences – but would it prove too blunt a weapon to do more than give more well-heeled punters a cheaper ticket than they would be expecting (and happy) to pay?

Charging only £10 for a theatre ticket certainly takes a lot of the risk out of going to see something you don't know much about. At the very least, it may encourage occasional attenders to visit more often than usual – the turnout for the riskier shows in the season suggests this is the case. If research indicating that price is more of a barrier for less well-off groups in society than for As, Bs and C1s, then – in theory – such a low price could also play a part in getting C2s and Ds at least through the door, perhaps for the first time.

As Chris recalls, the National certainly went to a lot of trouble to make the whole experience of going to the theatre cheaper, from the ticket (no fees charged) to the price of the programme (reduced) to the cost of a meal in the restaurant (pizza and salad for £5).

> We knew we needed to just bring more people in – a new audience that hadn't been here before – but we looked at the whole customer experience: how they book their tickets, how we did our marketing and what the offer was when they got here.

The current team at the National has been understandably nervous about over-claiming how far they have managed to shift their demographic from its traditional audience, which historically has been older and more affluent than London theatre audiences in general. Now, however, through data-mining research recently carried out, using Mosaic profiling (based on postcode analysis) to analyse its database of 300,000 customers, it has discovered that while the overall share of its traditional audience – coded as 'symbols of success' – has fallen by nearly 4 per cent since Travelex, the share of younger educated and professional people – coded as 'urban intelligence' – has grown by around 3.5 per cent.

So, while it is true that the poor are not yet breaking down the doors at the National, it seems that the theatre has widened its demographic to some extent and, according to its latest figures, is reaching a modest but growing number of C2s and Ds.

A good price? Impact on income

Although the Travelex season was intended to grow audiences, not to maximise income, it wasn't set up to lose money either, so it has been important for the National to analyse its performance carefully and set it within the wider pricing context over the rest of the year and across all three theatres. It is relatively simple to show that, taken by itself, the Travelex season has not cost money (or, to put it another way, that it has managed to break even). It is trickier to determine how it performs in comparison with the rest of the theatre's output, as generally no two shows are alike. However, there is one play that has appeared both in and out of the Travelex season, which – with some caveats over variables such as timing and small cast changes – serves for such a comparison.

Measure for Measure had different posters for its run in the Olivier (Travelex) and in the Lyttelton (normal pricing, ie up to £35) in 2004, but the productions of Shakespeare's drama were virtually identical, as was the length of each run. Allowing for different capacities, the lower prices in the Olivier were compensated for by larger audiences.

> It implies that we could have priced either one the other way and we'd have made roughly the same amount, give or take £30–40,000. It shows that you can have a dramatic price change and, as long as you have the capacity and the show is the same sort of thing at the same sort of standard, you can have it either way.
> *Simon Rhodes-Johnson, London Business School placement*

Selling more tickets at a cheaper price seems to have matched selling fewer at a higher price. This exhibits almost textbook price elasticity of demand. The neat relationship between lowering and raising ticket prices and the audience growing and declining as a result depends, however, on the particular assets of the National, which has the capacity to do this – it wouldn't work so well in a 300-seater theatre. And, even at the National, it would still be possible to cut prices too far and lose money.

The big question, then, is how long the theatre can stick to £10, which is looking cheaper all the time. For the time being, that simple, audience-friendly round sum of a tenner is too good to lose, as Chris commented, not long after the renewal of the Travelex sponsorship.

> It was an issue for us when we were looking at the next three years and the impact of inflation. Should we call it the '£10.99 season'? The '£15 season'? It doesn't exactly trip off your tongue, does it? It would mean, effectively, re-branding and we just felt that wasn't the right way to go.

So, to maintain that price, a better deal was struck with Travelex while the National took some internal measures to balance the books – maximising prices in other areas, tightening discounts at certain shows, removing group concessions (coach parties are not a key area for audience development), and so on. Financial pressures might mean that the National will have to look at reducing the £10 area of the auditorium and introducing more tickets at £27.50; for now (the 2007 season), two-thirds of the tickets for every performance in the Olivier Theatre are £10, as are two-fifths of tickets for the Lyttelton Theatre, which is now participating in the scheme for two shows.

As suggested earlier, the Travelex season as a brand seems to have had a positive effect across the board. Any early worries that customers would begin demanding £10 tickets for anything at the National were soon dispelled. Apart from the fact that, in any case, £10 seats are available for all productions at the National (though obviously in more limited quantities than for the Travelex season), it does not seem that people have been put off going to other shows – quite the reverse, as the latest figures suggest a correlation between the increase in box office income and people attending non-Travelex shows.

> If you assume that Travelex hasn't made or lost any money, which we think we've proved, then the increase in revenues over the past three years must be coming from all the other stuff. Therefore, either Travelex must have had a knock-on effect or the other stuff has been so superb that this would have happened anyway. It's probably a combination of the two.

It is intriguing, in this context, to note recent customer research which indicates that a good many audience members believe that they have attended a Travelex show when they haven't.

Conclusions

As an avowedly low-pricing strategy to bring in new audiences, the National Theatre's Travelex season has, ultimately, not devalued what the National offers but reinforced the value we expect from our national theatre. In the process, it has broadened its demographic, overhauled its artistic programme to favour riskier material and can now offer the public tickets that are, on average, around 15 per cent cheaper than in the West End.

So, while some, more commercial operations continue to target prices at the high end of their market and essentially try to make a virtue of high prices for particular shows or particular seats, the National believes that its particular marketing strength at the moment is offering a good-value proposition.

> You can charge £60 for Judi Dench in the West End because there's no brand to bend: people don't know they're seeing one of your productions. But here it would be uncomfortable for all sorts of reasons to put a premium on ticket sales just because we've got Michael Gambon and people will pay that extra £10 or £20 to see him. I've worked in places where you *would* think of doing that, simply because you needed to in order to balance the books across the whole year.

How far then is the National's experiment relevant to other venues, which might more urgently be trying to balance the books and to square the virtuous circle of developing audiences *and* maximising income?

Both Chris and Sarah are adamant that its Travelex £10 season is a unique response to a unique set of problems that the National had been trying to solve – and that the risk would have been too great without sponsorship. It is not a model that can be replicated wholesale, although Chris believes that the National's experience does offer some pointers to the wider sector.

> What can be learned from us is that the planning and the artistic programming and the ticket pricing and the marketing are all so closely linked now, much more than they ever were ten or fifteen years ago. If we had reduced all the tickets to £10 and not dealt with all the operational issues – numbers of performances, changing sets overnight to save money and so on – I don't think it would have worked. The organisation has to embrace the whole change and you have to examine every aspect of your operation to find out how you can work for the benefit of customers and put them centre stage.
>
> Only you can create something that is right for your venue.

Acknowledgements and thanks are due to Sarah Hunt (Director of Marketing), Chris Harper (former Director of Marketing), Simon Rhodes-Johnson (London Business School placement) and Lisa Burger (Finance Director) for agreeing to be interviewed for this chapter.

Price doesn't matter (quite so much)
Yield management at the Barbican Centre

Its once notorious complexity of public access is reproduced behind the scenes in the labyrinthine warren of narrow corridors and sudden offices where the people operating the venue work, yet the Barbican Centre is now recognised one of the nation's better arguments for concrete. Its architecture aside, the programme here is remarkable for its diversity – from the Great Performers series, featuring such varied luminaries as Sonny Rollins and Itzhak Perlman, to the cutting edge theatre season BITE, which includes everything from Cheek by Jowl to site-specific artists Lone Twin, and on to thematic extravaganzas like Tropicália, a celebration of Brazil's short-lived but hugely influential Sixties cultural revolution that ranged from gallery to theatre to outreach work. The Centre is also notable for its lack of direct Arts Council funding, as it receives its main subsidy from the Corporation of London, which maintains a careful but comparatively light-touch watch on its work.

Surrounded by the edifices of the City, one of the world's great financial hubs, the Barbican complex houses a goodly portion of the area's relatively few residents in serried apartments that line its lakeside. This is undoubtedly an area of London given over to the manufacture of wealth and most passing trade would be city business people, but the Barbican Centre claims the most diverse audience of any peer venue in London, with 12 per cent of its audience base drawn from ethnically diverse categories.

Chris Denton, the Barbican Centre's head of marketing, believes that this diversity, which includes a wide age-range among attenders, is a response to the diverse product on offer. He claims that the Barbican's international theatre programme, for example, is of a different order to what can be found at the National or in the West End. It's one of the factors that 'make it difficult for us to benchmark against other venues in terms of pricing'.

The pricing strategy group, which has been meeting since 2001, is clearly very proud of the quality and strength of the Barbican's artistic programme. It is this, far more than price, which they believe has drawn first-time (or single attendance) audiences back for a second visit. At the beginning, however, that was not at all clear.

The group's remit was to enquire into pricing in all its manifestations at the Barbican, from broad concerns, such as how prices were set and who set them and how they then linked into audience development, to more specific questions, such as price breaks, how many complimentary tickets were issued, and so on. It drew together a core of three crucial managers: Chris, Niki Cornwell (Head of Finance) and David Duncan (Head of Customer Experience). There followed an intensive period of research and radical change over the following three years, as the group began to realise just how unconsidered the Barbican's approach to pricing had been.

> We weren't looking at pricing in any kind of strategic way. Now, David in Customer Experience and Niki in Finance have much more of a role, but back then it was not always dealt with at a senior management level. I guess we were in a rut. Considering it's such a critical part of the mix, I think we would hold our hands up now and say that five years ago we were really missing a trick.

Although it swiftly becomes clear, when the conversation turns to audience development, that price is not seen as the main lever bringing people into the Barbican, Chris's admission here that pricing is 'a critical part of the mix' reflects the group's belief that it can play an enormous role in maximising revenue. It was the Barbican's adoption of yield management techniques in 2002/03 and the concurrent leap forward in website technology generally that has shaped and driven the Barbican's new pricing strategy, dovetailing with a new approach to direct marketing and audience development based, not on focus groups and opinion gathering, but on results analysis. What sparked off the decision to use yield management and to jettison much of the paraphernalia of discounts and special deals, however, was not the result of a dry debate but discovering something extraordinary about their customer behaviour: there seemed to be virtually no evidence of price resistance – quite the opposite, in fact.

The adoption of yield management

> We often had a situation where the top prices had sold out and there was continuing customer demand for the top price that we could not fulfil. We have also found that some cheaper seats remain unsold *until they move up into the top price bracket*. There is a section of our audience who just want the top-priced seats – no matter where that seat actually is.

David Duncan still seems a little surprised by this development, of a swing towards the high end of the market, but it inspired him to introduce yield management techniques to make the most of it. Previously, there had been no way of varying prices in this way: everything was 'in black and white', other than making reductions to shift a poor-selling concert. No one had ever asked: why not match supply and demand?

> The introduction of yield management has given us a huge amount of flexibility, even for one-off events that we haven't had before. If you don't know what the demand is going to be, you haven't tied yourself to a starting point that can't be changed. So you can react if there's suddenly a huge demand or, if it's not selling well, you can dress the house. Of course, it's also important to ensure you always provide value for money and retain accessible prices.

The strategy also informs the pricing for repeat events and return visits. If something has done well, the Barbican can adopt a more ambitious pricing structure the next time around – and reap the financial benefits.

> This approach gives the box office staff a real opportunity to react to supply and demand. As the team gets familiar with the events and the seating plans, they know which ones need to be looked at on a daily basis and which ones can be left a week or so. This all has a really good effect on income, with returns on some events increasing by up to 30–35 per cent.

The only downside for those staff is that, until more automated monitoring systems are in place, this process is still labour intensive, particularly as an event gets closer, with the need to check sales on a more regular basis.

The decision to allow customers to select their own seats online has strengthened the ability of the box office to gear prices up or, less often, down. According to David, the impact of online booking 'really blew the floodgates open'. Responsible for 4 per cent of sales in 2001, online business has now shot up to account for more than 65 per cent. Analysing those sales has also provided further evidence that customers are not as highly price sensitive as had been assumed.

> You've got your online seating plan where you can clearly see the divide and the price bands, so you might think that people would jump two seats to the side to secure a lower price but no, they would rather pay the extra. Seeing this happen changes your thinking.

Traditionally, customers would phone up to discuss available prices and then find out where they could sit for a particular price. Customers now look at the seating plan, decide where they want to sit and only then do they consider cost. It is more about value. All the fears among venues about letting customers see their availability have proved unfounded and what has emerged instead is a sea change in customer perception.

Audience development and the 'red herring' of price

Around the time when yield management was being introduced, Chris was also doing some research for the classical music sector.

> I was trying to see where price came in the marketing mix and how much it was influencing audiences and whether it was a barrier to attendance. We did qualitative and quantitative research and it was absolutely conclusive: price just wasn't an issue. If people are motivated to come and are interested in the product, then they will pay whatever it costs. This was equally true of students or younger audiences, where you think you've got to price down because they can't afford it. In fact, they told us that, if they really wanted to go, they would do it properly – even if that meant paying £25 or £30 for a ticket.

It seemed that, for this particular group, who would, after all, spend serious money in clubs, the problem was not price but the low profile of the Barbican. Even though they were culturally up to the mark, 'we weren't on their radar of things that they could go out and do'. Hence, the current 'Do something different' campaign, which encourages people to add the Barbican Centre on to their list of leisure options. For Chris and his colleagues, developing audiences is very much about providing a product and then promoting it in a way that they will hear about it – and want to go and experience it.

> You could offer me a flight in a hot air balloon for a fiver but I'm paranoid about heights and would be terrified. So, unless you could find a way of selling it to me in a personally motivating way, I wouldn't pay one hundred quid or two quid. It's the same with us: you sell difficult concepts by creating the desire for them. It comes down again to the nature of the product. It's never price – I think that's a real red herring in terms of audience development.

So, the queues for standby tickets have disappeared along with the 'three hundred different discount types' on offer and all this has simplified the entire process of setting prices. There are only three or four different scales in the main theatre but within that there are a variety of seating plans and different layouts to generate the maximum possible income for a particular event.

Although customers on a budget can obtain cheaper tickets (at around £6–£8) at every Barbican event – often on the front row of the stalls and at the side, as well as in the upper gallery and (the lowest price) up in the balcony – it is not something that the Barbican feels the need to lead with in its promotions.

Overall, the Barbican's approach to audience development seems to be based on a counter-intuitive combination of customer empowerment and manipulation.

On the one hand, Chris and his fellow managers give customers a lot of room for making their own decisions – a good example is the sprawling multi-artform festivals that the Barbican is known for, where no festival 'season tickets' or crossover deals are offered, in the belief that customers today like to create their own programme. This freedom extends from putting online customers in control of their booking to refusing to allocate them en bloc to niche markets. Its database of a million transaction records is a huge resource and much of the Barbican's marketing is direct, using that data to present individuals with promotions tailored to their personal price and booking patterns. However, Chris exposes how this is also useful to the Barbican as 'invisible' customer research.

> We're driving much more towards trying to personalise content and looking at triggered marketing: we send triggered emails now, so that, if the customer behaves in a certain way, they get a certain response by email from us. So, in a sense, we're researching them without them knowing it.

In the end, Chris concludes, however responsive the Barbican is to its customers – and, of course, it does want to provide them with the best possible arts programme – audience development is also more and more about hard-headed business considerations in a funding environment which is getting tighter and tighter each year.

> Audience development is about how we deal with you as a customer, regardless of your background, but also how we can gain your loyalty and make you come back. For me, audience development is a business-driven thing about developing a profitable relationship (artistically and financially) with customers over the lifetime of a relationship and getting people to come back as often as we can. It is not just about ticking boxes.

While continuing to attract first-timers remains important, the highest financial payoff is in persuading people to make a return visit. When Chris joined the Barbican in 2001, the ratio of new to returning customers was 70/30. Now the balance has shifted the other way, with 58 per cent returning and 42 per cent new each month. The focus is now turning to Barbican members – and, once again, old assumptions are being re-examined, again around price. This time, there is a debate about discounts and how important they are as a benefit for members.

Apparently, since doubling the price of membership, the Barbican has seen it double in size to around 15,500 members, who provide 28–30 per cent of the Barbican's earned income in the shape of £2m ticket revenue per annum. Maintaining and growing membership is therefore vital, especially as the data shows that the average annual spend of about £100 drops to about £12 once a member lapses. To tinker with discounts is therefore a bit risky, but the current system is inconsistent and overcomplicated – and member discounts are not always offered if the event is likely to be a sell-out.

It is a debate about added value, triggered by that surprising discovery that its customers are going to come because of the event, not the price. So, if they aren't particularly influenced in that decision by a discount, how can their loyalty be rewarded? The final answers to this are not yet in place, but they are likely to credit the customer with a greater desire than just getting a cheap ticket.

Pausing but not stopping

David feels that yield management on the scale practised at the Barbican may not be particularly appropriate or useful for smaller venues. With fewer events, it might not be worth all the work needed to administer it, although the number of events is relative. However, for larger organisations, it seems odd that more have not yet adopted it. Part of this, he thinks, might be that the relationship to airline yield management techniques is sometimes misunderstood.

> I think a lot of people are trying to emulate the airline model, which is a completely different kettle of fish. It is based on deliberate over-booking and relying on no-shows and all that sort of stuff, so it can't be translated direct to the arts industry.

Pausing a moment, however, he acknowledges that there may be further yet to go in applying such techniques at the Barbican Centre.

> Although yield management allows us to match supply and demand, we don't actually change the base *prices* as such. Doing that would be another step forward, especially for events that are sold at one single price. You could start off low and then, once you've sold out some of the tickets, bump the actual price up, so that the closer you get to the event, the higher the price of the ticket… perhaps that time will come.

There is clearly no plan to wind up the pricing strategy group just yet.

Acknowledgements and thanks are due to Chris Denton (Head of Marketing), Niki Cornwell (Head of Finance) and David Duncan (Head of Customer Experience) for agreeing to be interviewed for this chapter.

Look – no prices!
Sydney Theatre Company's approach to airline yield management

When an ex-CEO of Qantas took over as the chair of Sydney Theatre Company, he had an agenda: to see how and whether airline yield management could be applied to a theatre company. He brought in two consultants to examine the theatre company's pricing and yield management techniques. One was, coincidentally, a subscriber to the theatre company anyway, knew how things worked there and asked rather predictable questions. The other was – in the words of Craig Hassall, the then deputy general manager – 'a complete theatre ignoramus'… and thus hugely useful. He would ask different, more challenging questions. For example, on the topic of variable pricing, he asked why a price could not be changed once tickets have gone on sale. When the theatre responded that it just wasn't done, he said that that was not a good enough reason: *why* couldn't it be done?

Craig recalls with amusement his realisation then that there was 'this sort of moral *thing* hanging over us that, as a subsidised company, we had an obligation to be transparent about our charges'.

Putting price last

Subsequently, in perhaps its most startling application of airline practice, the company decided not to advertise ticket prices, on the basis that an airline can never say what a seat is worth, only what it costs to book it now. The arts industry's norm is to advertise prices, but Craig is now not sure why – except that this is how it has always been. He takes up the tale.

So, we experimented and started taking prices off everything. None of our brochures had any prices in them, nor were there any on the website. The only place you saw the price was on the ticket – after you had bought it. Was there any resistance in the market? None – not one complaint. This approach extended to the scripts for the phone operators in the box office. We made sure that the price was the very last thing mentioned in the sequence of purchasing the ticket – once the customer was hooked. Unless the person asks, there's no need to mention the price until you reach the end, because, unlike the show or the good seat, it's not going *to be an incentive. I think we all feel morally bound to tell people the price in case it scares them away. But why? In fact, customers would generally go along with it because they felt that they had got exactly what they wanted – and they'd rung us in the first place, so we knew they wanted to go ahead with it.*

Varying the price

Emboldened, the company took the next step: variable pricing. As it wasn't advertising a price, there was, in theory, no limit to what a show could cost. Having already sold half the tickets on subscription, it already had a very ready indicator of what was the most or least popular show – and where prices could be varied, usually upward.

We would simply put the show on sale at a nominal price and then look at demand across the week and then just adjust. And, internally, we'd agree, for example, to start charging more for the Monday early evening because actually people are responding to that and selling quite well. So we'd add $2 to that price. If there was no resistance in terms of the volume of sales, we'd push it a bit more.

This is, of course, what the airlines do so effectively. Just as people no longer question why a flight costs more today than yesterday, theatre attenders learned to accept paying different amounts, on the basis that price changed to meet demand.

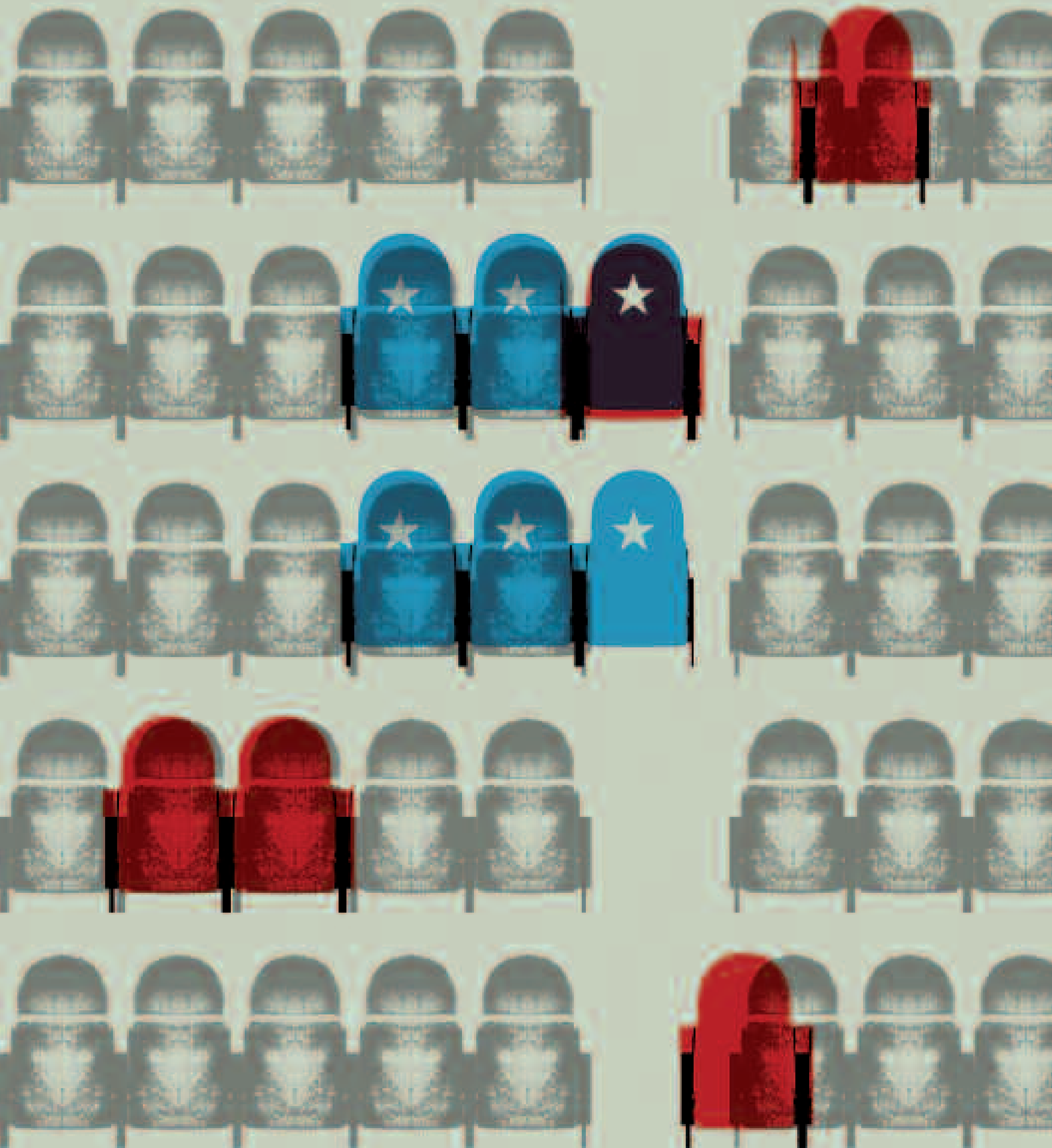
Maximising loyalty

Of course, this daring approach would not work half so well for a venue or company which lacked the loyal and fairly regular audiences that the Sydney Theatre Company had built up. They accepted it – as those new to the company would also accept it, having no expectation of price. It also would not lend itself to audience development strategies, which are trying to reduce the barrier of price. As a way of maximising revenue, though, it seems hard to beat.

We weren't being cloak and dagger about it. We'd say: this is a very popular show. People are very keen to see it and we can charge more. As a publicly funded company, we have an obligation to be as resourceful as possible in raising revenue.

With thanks to Craig Hassall (former deputy general manager) Sydney Theatre Company, www.sydneytheatre.com.au

Postscript
The American scene



This chapter analyses current arts pricing practices in New York, demonstrating that once again we are, to some extent, 'divided by a common language'. Although organisations over the pond are experimenting in a similar variety of ways to maximise income and improve access, they are doing so with notions of value and price that have been shaped by a very different history and culture.

Although it, therefore, tells quite a different story – there is, for example, little subsidy of the kind provided by the UK arts funding system – this study offers useful comparative insights into how North American organisations are tackling the challenge of maximising income in the midst of a rapidly diversifying population with a vastly increased range of leisure and entertainment options.

The American scene
New York trends in arts pricing

Chris Lorway and Geren Raywood

The United States is a consumer-driven market where the pursuit of profitability and customer satisfaction determines almost every strategic business decision. More and more, these business practices are being adopted by the arts and entertainment market. Since the late 1990s, a confluence of factors has made it increasingly challenging for the performing and visual arts to increase earned income and build audiences. The volatility of the US economy, together with rising production, healthcare and security costs, have resulted in organisational programme cuts and increased operating deficits. At the same time, the explosion of the internet and other home entertainment innovations have placed the traditional artforms on a much wider competitive playing field, making it more difficult (and more expensive) to draw in new audiences while retaining current attendance levels. In this increasingly competitive, commodity-driven market, finding a core audience and building experiences that will keep bringing them back is critical to long-term survival.

Outside of their tax-exempt status, the majority of US non-profit[1] cultural institutions receive little in the way of government funding.[2] Annual operating expenses for US cultural organisations are covered through a combination of earned income activities (ticket sales, space rental, cafes, shops, etc) and contributed income from foundations, corporations, board members and individual donors. Reliance on multiple stakeholders (each with their own agendas) for contributed income has led to increased pressure on commercial and non-profit cultural institutions alike to demonstrate greater sophistication in business practices. Companies and their management teams are expected to actively engage in sound strategic planning, to adapt to trends in technology, to illustrate increased operating efficiencies and, perhaps most critically, to demonstrate to either board or backer the ability to generate revenue.

Using marketing research to understand how arts consumers value their experience in relation to its cost and how to effectively communicate that value through marketing and pricing can be a significant challenge for arts managers. An increased focus on creating an overall consumer experience is a difficult balancing act for organisations that struggle to remain loyal to an aesthetic while providing more competitive value. And the pressure to accurately predict consumer behaviour and purchasing trends has had a significant impact on ticket-pricing strategies in both the commercial and non-profit sectors. Managers are increasingly driven to seek new approaches and innovations that maximise revenue and create sustainable audiences.

It is within this framework that we look at ticket pricing in the US – and for the purposes of brevity, New York City – market. The traditional arts scene in the US is large and diverse; the variables of marketing practices and pricing strategies around the country could easily fill its own book. We have purposely chosen to focus on New York City, knowing that:

- it represents the biggest cultural market in the US, with the widest range of institutions in terms of size and sophistication
- it bears out some of the more interesting and innovative examples of pricing strategies and practices
- it is often the incubator for new ideas and largely sets the pace in arts administration practices for the rest of the country.

In this chapter, we have attempted to provide a small sample of commercial and non-profit pricing schemes that either complement or differ from current UK practices described in other parts of this book. We have also tried to illustrate how particular pricing strategies play out, positively or negatively, in the US market by including current case studies from the performing and visual arts.

Highs and lows – premium pricing and discounts

The interdependence that exists between audience development and marketing (and therefore pricing) in the strategic activities of most cultural institutions in New York City and the greater United States cannot be overstated. An increasingly crowded and competitive arts market demands that cultural institutions function as disciplined businesses for whom building and sustaining audiences is paramount to survival. For non-profit arts groups, getting people through the door is the first challenge. From there, the goal of cultural marketing managers is to convert occasional attenders into repeat attenders with the hope of eventually converting them into donors.

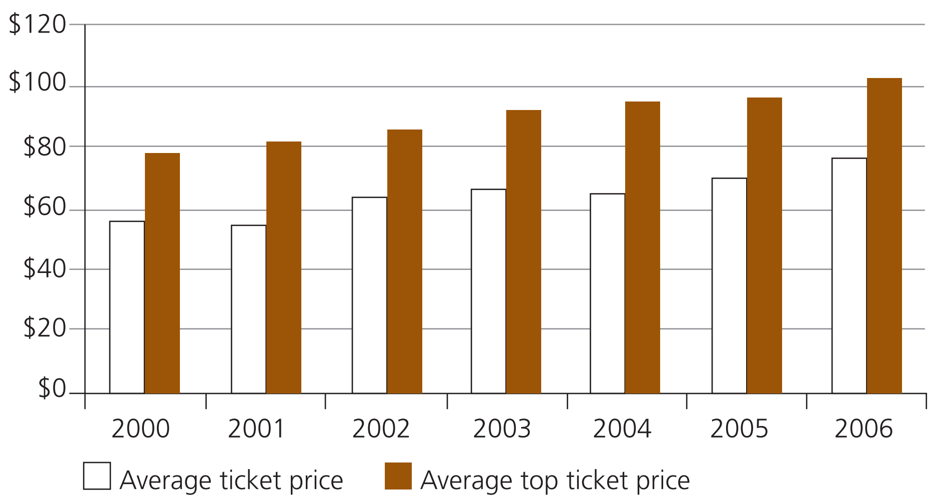
The traditional core audience in the US – white, middle aged and affluent – is both ageing and insufficient in size to maintain the revenue needs of the sector. The US is also currently experiencing a major demographic shift that will redefine the profile of the average

American over the next fifty years.[3] As a result, it is imperative that the cultural sector illustrates its ability to attract and retain an audience that is more diverse racially, economically and in age if it wants to remain relevant to future generations. Achieving this will have an impact not only on pricing strategies but on how cultural institutions think about integrated strategic planning – including targeted programming, community and educational outreach, and marketing. Management teams that are armed with good quantitative and qualitative information, institutional buy-in and the ability to think creatively and realistically about potential opportunities will go much further in their audience development strategies than those that aren't. The determination of ticket and admission prices as part of overall financial planning will play a key role in these activities.

It costs *how* much? Pricing in the performing arts

Attending the performing arts has become an expensive habit. Since 2000 alone, the average top ticket price for a Broadway musical has increased by a staggering 31 per cent. The average ticket price has advanced even faster, by 36 per cent. Non-profit cultural institutions both in and outside of New York City have followed suit. Even off-Broadway, historically the place to go for affordable theatre, has (nearly) crossed the $100 mark.

Broadway ticket prices over 7 years



Week 21 (mid-October) was used each year for comparison

Paying for capital projects

Jazz at Lincoln Center's top-ticket price jumped from $65 to $150 when the organisation moved to its new home in the Time Warner Center. In year two, the top price dropped to $130, which many audience members feel is still too high. JALC is currently conducting audience research to create a new ticket-pricing model to maximise revenue while addressing audience concerns.

There are a number of reasons for this, the most obvious being that the fixed and variable costs of producing live entertainment have grown exponentially and revenue streams have had a hard time keeping up. In addition, ticket prices are often raised following a major capital project when organisations need additional income to cover higher operating costs and/or to cover capital campaign shortfalls. But how much should the public expect to pay for culture?

There is an ongoing debate over the ownership of culture. One side claims that a nation's culture, possessive of great social value, should be subsidised, while the other side argues that anything of value, including art, comes at a cost and should not be merely 'given away'. A third, somewhat cynical position contends that, as a whole, the US cultural industry has gone the way of sport and priced itself at a level out of reach for many consumers.

Enter variable pricing. Variable pricing is playing an increasing role in allowing for the diversification of new audiences through its ability to create multiple points of entry for different consumer segments and empowering those segments to attend at an acceptable price. If managed carefully, pricing models that pair premiums with significant discounts have been found to create better alignment between supply and demand. In the last decade, variable pricing has been evolving, particularly in commercial Broadway theatre. The level of sophistication now being employed can be attributed to advances in technology and accompanying market analysis tools. Box office managers now have the ability to analyse purchasing trends – who is buying what, where, when and for how much – and to place them in a larger context of market factors such as hotel occupancy rates, geographic composition of audiences and seasonal variables. Technological advances in online ticketing software are also giving marketing directors the power to more accurately forecast demand and vary ticket prices accordingly, to ensure maximum revenue and minimum inventory loss.

Accurately pricing tickets to capitalise on market demand without over-exploiting the success of a show is a fine line to walk and one that requires almost continuous evaluation of sales patterns and cycles. Variable-pricing schemes may still lie beyond the means of many smaller institutions that don't have the resources to maintain a box office equipped with the latest technology and staff capable of monitoring these trends. In many cases, these organisations are outsourcing these functions to third-party vendors such as Telecharge.com or Ticketweb.com, which, in addition to facilitating online sales, can provide important buyer information.

Premium pricing – how high are you willing to go?

In some cases, the popularity of a show can offer an opportunity to organisations to capitalise on demand. Aggressive ticket pricing is nothing new. Broadway musicals, major orchestras and opera companies have historically charged a premium for the best seats in the house for the most popular programmes. Creating a sense of urgency around a show that leaves the audience with a perception that what they have is hard to get, and therefore worth the money, has also long been common practice in both the commercial and non-profit sectors. And most marketing managers will tell you that the hotter the ticket (in other words, the greater the perceived value of what is being offered), the less price-sensitive your audience will be overall. Major rock concerts and sporting events illustrate this theory effectively.

One popular trend that began on Broadway five years ago is the concept of premium seating. Premium seating is a demand-driven pricing model which ensures that, on any given night, a number of the best seats are reserved for last-minute sale at a premium price – often more than double, and at times up to five times, the cost of the most expensive seat. Using up-to-the-minute sales information, a box office can hold or release the number of premium seats available based on current demand. In order to ensure that the house is filled to capacity, unsold premium seats are released over time at the regular price as the performance date (or hour) approaches.

This kind of pricing ensures that a patron willing to pay a steep premium will always find a seat available at the last minute. From a marketing perspective, if done correctly and backed with the appropriate advertising, premium pricing can sometimes create the illusion of a hard-to-get ticket, even if it is not. There have been examples of shows selling at half capacity but still able to sell premium seats (at least for a time), creating the appearance of ticket frenzy when there really isn't one. The target audience for premium seats is understandably limited and usually includes patrons either unwilling or unable to plan in advance, those with expense accounts for whom price is not a factor, occasional theatregoers who regard the night as an ‘event’ and those rare individuals (and they do exist) that take pride and pleasure in paying a high price because they can.

Premium pricing plays on the 21st century cult of luxury and exclusivity – and it helps to be operating in a city that thrives on, or at least supports, those attitudes. A study conducted by the League of American Theatres and Producers, an industry trade group, found that during the 2003/04 season the average annual household income for Broadway ticket buyers stood at $97,300 (actually down 10 per cent from the previous year),[4] making $300 tickets seem perhaps less outrageous. But, as the performing arts continue to compete on an ever-expanding entertainment stage there is a danger of out-pricing both core and new audiences with inflated prices that reach beyond the value of the product being sold. If a pervasive use of premium pricing were allowed to create a perception, true or false, that the arts is unaffordable, that perception could deflate value and result in lower overall ticket sales. The question becomes at what price, no matter what the perceived value, will the consumer simply walk away?

The Producers

***The Producers,* a cult movie classic transformed into a Broadway musical starring Nathan Lane and Matthew Broderick, was a hot ticket even before it opened. In 2001 it became the first show to break the $100 ticket ceiling on Broadway and take in $3.3 million in advance sales the day after opening (the highest daily take in Broadway history) – and at its peak boasted an unheard of $37.8 million in advance sales.**

Historically, to secure last-minute tickets to the most popular shows on Broadway, a theatregoer relied on third-party ticket brokers and scalpers who charged exorbitant rates for hard-to-get tickets and pocketed the profit. Producers of hit shows watched huge sums of cash walk out the door. With the power of its popularity (and its two leading men), *The Producers* undermined traditional brokers/scalpers by holding select orchestra seats for every performance and selling them for $480 each (another Broadway record), thus introducing Broadway to the concept of premium seating.

To some this was logical and a long time coming – a stroke of marketing brilliance. But to others it was a sign of hubris and

greed, by its very nature reinforcing the idea of theatre being only for the elite. At its public relations worst, it was seen as price gouging. But despite the critics, the producers of *The Producers* were successful and several other top-tier shows soon followed suit. The ability of the market to absorb these prices, as it did, has raised both Broadway ticket prices and profit expectations to a new level.

Non-profit boards of directors, often comprised of community business leaders, wield a tremendous amount of power over their cultural organisations. In some cases, there has been increasing pressure from certain board members to adopt premium-pricing models to increase earned revenue. In commercial theatre, the goal is to keep a show running for as long as possible so that, once initial production costs are recouped and running costs covered, a profit is returned to investors. Where, historically, the price scaling of a house had been more complex (meaning there were more price points available), now producers are looking more and more at a minimal pricing model (often with only one or two price options) coupled with premium pricing and discounting to reap the same revenue goals. In non-profit theatres, where the length of a show's run is predetermined, the role of premium pricing is different. Where demand warrants, a non-profit theatre can utilise premium pricing for a hit show to meet the increasing financial demands of producing art in the current environment while at the same time pricing other sections of the house at more affordable rates.

There is, however, a risk for non-profits. Premium pricing may create a question around the charitable remit of many organisations (on which their tax-exempt status is based) and run against the spirit of subsidised arts by reducing access to a greater cross-section of the population interested in attending but priced out of the market. It can reinforce the idea that the performing arts are largely elitist artforms, reserved for the well-heeled. Most non-profits do their best to ensure patrons can either purchase the same seats in advance for less or have enough affordable tickets left at a lower price point to give reasonable access regardless of the show's popularity or the consumer's economic means.

At the end of the day, premium pricing only applies to a small echelon of the most popular shows. If you are the lucky backer of a wildly successful show, then this type of demand-based pricing allows you to maximise profit without being held to one ticket price for the show's entire run.

Discounting – let's make a deal!

Having Julia Roberts star in your show will create demand for tickets, but the more substitutable a product in the larger entertainment market, the more its price becomes a factor. A weak economy, a savvier consumer and a wider cultural acceptance of free-market pricing have pushed many arts-goers to seek out discounts.[5] For the resourceful Broadway theatregoer with a flexible schedule, finding the best price for a Broadway show has become a sport, with half-priced ticket booths, rush tickets, lotteries, coupons and discount codes. The following paragraphs describe some of the ways in which discounting is being used in the New York market.

Half-price ticket booths had their start in Manhattan in the early 1970s, but have sprung up in other major cities such as San Francisco, Toronto and, of course, London (since 1980). Manhattan's discount ticket booths (TKTS) are widely known and used by tourists and locals looking for a last minute theatre fix. In a cultural market with the capacity to support one, a discount booth can provide producers with the ability to maximise capacity by unloading unsold seats on the day of the performance. One potential downside is that booths operating solely on cash transactions represent a lost opportunity to gather any customer information – a critical tool for future audience development.

A number of commercial and non-profit organisations have a ***rush ticket policy***, typically aimed at students (and, less often, senior citizens) with tickets being sold at a steep discount right before curtain time. In the US, rush tickets are often looked at as 'mission-related' discounts intended to draw demographically desirable audiences (read: young) who are perceived to be highly price-sensitive. The hope is that this segment will eventually transform into full-price buyers when they have the means to do so. The institutional return on investment is the prospect of building the next generation of attenders and donors.

Lotteries are a fairly new phenomenon in the US. The opportunity to purchase heavily discounted tickets (often in the first several rows of the orchestra) is 'won' by putting your name in a hat and leaving success to chance. On Broadway, lotteries were created to perpetuate and extend a 'buzz' for popular shows and to attract repeat attenders. In cases where tickets are still available, producers hope that those who are not so lucky but who still have a strong desire to see the show will purchase a full-priced ticket.

The lottery snake

Broadway lotteries began in the late nineties with *Rent,* a hit show about New York bohemian life. From the beginning, *Rent* seemed to attract a particularly young and loyal audience, many of whom saw the performance several times. Producers wanted to make sure that this group – an audience that mirrored the characters in the show and who normally would not be able to afford theatre – would be able come again and again. They began to sell the first two rows of the house at every performance for $20. Tickets were sold through a lottery system, where hopefuls put their names in a hat and the first twenty drawn got the right to purchase two seats.

The *Rent* lottery was wildly successful and other shows with similar cult allure soon followed suit. The lottery process has become its own phenomenon among Broadway fanatics, at times attracting an impressive 300–400 people to each performance. A collective of shows now stagger the timing of their lotteries, creating an audience snake that hops from one theatre to another each night in hopes of getting into a show.

Discount coupons have long been a staple of Broadway and larger non-profit arts institutions. These are marketed toward corporate, education and tourist segments and are typically distributed through corporate human resources departments, college residence halls and student activity centres, hotels, restaurants and visitor information centres. The strength of coupons is their potential to work as an advertising vehicle delivering a discount incentive for casual and 'fence-sitting' (ie undecided) buyers. Discount coupons also allow a company to measure the success of a promotion (coupons are coded so they can be tracked). The potential downside to discount coupons is that they cannibalise revenue when used by savvy consumers who are in a position to afford a full-priced ticket but seek out discounts first.

In addition to coupons, *discount codes* are also offered through direct mail and online marketing campaigns and through online clubs (eg Playbill.com, TMInsider.com). These offers typically give frequent theatregoers reductions of as much as 50 per cent. Discount codes are usually part of a pre-opening marketing campaign aimed at building a strong advance for a show, prior to its being reviewed. They also tend to appear after a show has run for a while and is losing steam. Discount codes, especially those tied to online purchase, are an easy way to collect buyer information, track purchase trends and measure marketing campaign success. The potential downside (again) is the savvy consumer who seeks out discounts first.

Taking a cue from airline and credit card member programmes, the Nederlander Organisation (a major Broadway producer/booker) recently announced plans for the creation of an ***Audience Rewards programme*** that would allow frequent theatregoers to earn and exchange points for various benefits including discount tickets, access to special events and non-Broadway merchandise. Customer loyalty programmes are ambitious and would require producers and theatre owners normally engaged in direct competition to come to mutual agreement on what discounts and benefits to offer, how much producers should pay for collected marketing information, whether and what proprietary show information is shared, and how the overall system is managed. While still in the somewhat distant future, it is nevertheless a good example of cultural organisations embracing and adapting mainstream marketing techniques.[6]

The dilemma of subsidised tickets – revenue cannibalisation?

Marketing managers are split on how to address price sensitivity, particularly when it comes to discounts. An internal survey for a major performing arts organisation in New York City found that if their ticket prices were cut by a quarter to a half, they would gain market share. But to what extent would there be revenue left on the table from those who were not price-sensitive? Raising base ticket prices and creating complex discounting programmes, as the airlines have discovered, can be a detriment to overall profitability because over time it creates a shrewder customer that will make the effort to seek out discounts rather than pay full price. Finding a middle ground is critical and, in general, New York's performing arts organisations have been successful in developing pricing and subscription models that provide a range of prices and price packages based on different markets. A few recent examples follow.

Signature Theatre Company: 15th anniversary $15 ticket initiative
One of New York's successful off-Broadway companies, the Signature Theatre Company, wanted to attract young, ethnically and economically diverse theatregoers in an effort to build the next generation of audiences for the company. Taking a cue from the National Theatre's £10 Travelex seasons, Signature set out to underwrite every seat for each performance of its 15th anniversary season in an effort to provide affordability and accessibility in an era where pricing has made theatregoing prohibitive for many. To do this, the company brought together a consortium of funders to underwrite[7]

its regular $55 ticket price. Time Warner, a major media corporation based in New York City, stepped up as principal underwriter, believing that the combination of Signature's programming (which included a season of August Wilson plays) and audience development goals fit well within its own philanthropic goals to foster diverse voices in the arts and broaden public access to them.

To date, the programme appears to have been very successful. The first three shows of the $15 season played to 100 per cent capacity and Signature saw a 250 per cent increase in group sales over the previous season. But the really good news was that 50 per cent of single-ticket buyers and 30 per cent of subscribers were new to the company and 99 per cent[8] of ticket buyers surveyed said they would attend another show at the Signature in the future. Time Warner is interested in helping the company continue the programme in some form into the future and Signature's success has led other regional theatres –including the Phoenix Theatre Company in Indianapolis, Indiana and True Colors in Atlanta, Georgia – to create similar programme initiatives. Signature's $15 ticket programme has been lucky enough to coincide with a run of critical successes and extended runs (where the price reverts to $55). While ticket prices alone may not bring in and retain new audiences, the proper alignment of price, programming and promotional strategies can have a significant impact.

New York City Center's Fall for Dance Festival

There is the some concern in the industry that heavily subsidised tickets could lower the perceived value of a company's product. New York City Center's Fall for Dance Festival is an excellent and successful example of the ability of ticket subsidies to generate new audiences without lowering perceived value. Each autumn, the Fall for Dance Festival, underwritten by Time Warner, The Peter J Sharpe Foundation and other funders, produces ten days of mixed performance bills that pair City Center resident companies with visiting dance troupes representing a variety of forms (classical/modern). Tickets are priced at just $10 and the intended outcome is that audiences exposed to multiple and diverse dance companies and styles will ultimately create a larger New York audience for dance.

Audience research conducted in autumn 2006 suggests that the initiative has been successful; 37 per cent of audience members surveyed over the course of the Festival indicated that it was their first time at City Center. Of the 28 per cent who had attended a previous Fall for Dance Festival, 40 per cent indicated that the Festival had directly influenced the number of dance performances they had seen in general, and 45 per cent indicated that they had gone on to purchase tickets to one of the companies featured on the bill. Finally, 37 per cent of total respondents indicated that price was the strongest motivator to attending the performance. City Center has also created an email club called New York DanceLink, which enables Fall for Dance audience members to opt into an email service that provides information about what is happening in fourteen of New York City's top dance venues.

Subscriptions – a model on life support?

For a long time, subscription sales constituted the largest percentage of earned income for non-profit arts groups. Subscription campaigns gave organisations the ability to control cashflow because the majority of available seats were sold in advance of a season opening. From there, single-ticket campaigns were launched to attempt to sell what remained of inventory to last-minute buyers willing to pay full price or through 'day-of' rush programmes.

Nowadays, US consumers want more flexibility to accommodate last-minute schedule changes and increasingly buy on impulse as opposed to longer-term planning. This trend has flipped the subscription model on its head and has created a serious dilemma for many organisations reliant on advanced revenue for stability and planning. In addition, uncertain economic times tend to make people more reluctant to make big financial commitments in advance. Recent research conducted by a number of larger New York arts organisations show that a significant percentage of arts consumers are choosing to purchase tickets within ten days of an event. As a result, marketing directors are left with significant inventory the week before an event and little indication of how it will ultimately sell. As the event nears and the anxiety of undersold shows increases, many organisations begin liquidating their tickets through online offers. By doing this, they reinforce consumer behaviour by incentivising last-minute purchasers with significant discounts and thus erode the subscriber base even further.

While there has been a major decline in subscription sales over the last decade, there still remains significant institutional (and to a certain extent consumer) loyalty to the subscription model and many arts marketers are reluctant to abandon it. But cultural shifts will continue to make the stable revenue subscription schemes provided at their height of popularity more unpredictable and precarious, forcing managers to rethink how they set prices, allocate marketing dollars, plan seasons and approach customer service. The challenge for arts marketers will increasingly be to develop a model where subscriptions or other relationship initiatives offer buyers the flexibility they require. Understanding the incentives driving people to subscribe is critical to developing appropriate initiatives. People traditionally subscribe for the following reasons:

- organisational loyalty
- ticket discounts
- anticipation of, or fear of missing out on, hit shows
- the ability to keep or upgrade specific seats
- the desire to have pre-scheduled activities through the year
- membership perks such as lounge privileges, shop/cafe discounts, etc.

Marketing directors are increasingly trying to capitalise on the idea of using social networks and communities to increase attendance by offering packages that include pre- or post-show receptions aimed at specific audience segments (such as singles nights, LGBT[9] nights, wine-tasting events and lectures). These types of initiatives complement an already complex system of multi-tiered programmes, rush tickets and student discounts and group sales, and represent a new trend in vertical marketing where the overall social experience of the night is as important as what's happening on stage.

While the factors behind the decline in subscriptions are varied, one of the more interesting, but perhaps overlooked, factors is that in many cases supply exceeds demand, even in a city as big as New York. According to the New York City Department of Cultural Affairs, there are 'roughly 500 arts galleries, 375 off-Broadway theatre companies, 330 dance companies, 150 museums, 96 orchestras, 38 Broadway theatres, 24 performing arts centres, 7 botanical gardens, 5 zoos and 1 aquarium'[10] – all making for a crowded and noisy market. In addition, many of New York's great performance spaces were built for audiences before the existence of multiplexes and big screen televisions. Lincoln Center alone has nearly 15,000 seats for sale on any given night,[11] and, despite the current struggle to fill seats, the inventory of performing arts seats in New York City and other major cities in the US continues to grow. Over the past three years alone, Carnegie Hall's Zankel Hall and Jazz at Lincoln Center's Frederick P Rose Hall has added an additional 2,500 seats into the market. A performing arts centre at the World Trade Center site and a new home for New York City Opera – if and when they happen – are projected to add more than 3,000 new seats. With all of this supply available, audience members are increasingly finding themselves sitting in houses only half to three-quarters full. This provides little consumer incentive to purchase in advance, particularly when good seats (which are often discounted) are available within a week of the performance.

City Opera – The Big Deal

City Opera's Big Deal membership offers significant discounts to 21–39-year-olds who are interested in opera. The programme has three tiers:

Basso (no annual fee)
Through email, Basso members receive offers for $30 tickets to a limited number of performances throughout the season.

Mezzo ($75 annual fee)
Mezzo members have unlimited access to two $30 orchestra tickets per performance (subject to availability). They also receive invitations to parties and events throughout the season.

Maestro ($300–$500 annual fee)
Maestro members have guaranteed access to two $30 orchestra tickets per performance. They also receive Green Room Patrons' Lounge access, invitations to special parties and events throughout the season, invitations to dress rehearsals and donor recognition in programmes.

Two single orchestra tickets to a City Opera production cost $230. Alternatively, if you are aged 21–39, you can purchase a Big Deal Mezzo membership for $75 and purchase the same two orchestra seats for $30 each (bringing the grand total to $135). Becoming a member actually saves you $95 and all future performances are only $30 per ticket.

The New York City performing arts market is a constantly shifting landscape that will continue to be affected by new technologies that make pricing and marketing an ever-more complex art and by new competitors that will force organisations to think long and hard about what they have to offer and how it fits, in both price and value, into the broader cultural landscape.

It's not just the other guys – higher admissions in the museum world

Just as the United States has seen a shift to higher ticket prices across commercial and non-profit performing arts, the trend has been mirrored in a rise in admission rates in the nation's art museums, beleaguered in recent years by flat attendance and chronic operating deficits exacerbated by rising insurance and security costs. The fear that higher admission prices will alienate a more diverse patron group is again not exclusive to the performing arts. While museum operating costs have outpaced price increases in nearly every other form of entertainment in recent years, the reality is that, aside from some minor public griping, there has been no discernable fallout in the core audience despite admission fees now averaging between $12 and $15 across the country.

What is of concern to administrators is keeping collections accessible to the broadest cross-section of the population. The core audience for museums (as with theatre, music and other performing arts) has always been skewed towards white, middle-aged and upper income. Historically, this demographic segment has been relatively immune to most economic downturns and willing to expend the additional cash as admission prices increase. The loyalty of the core audience and its ability to continue to pay higher and higher rates is the gamble museum directors take when raising admissions to cover budget deficits. The other gamble is undercutting their ability to attract more socio-economically and culturally diverse patrons.

What price art?

The following exchange was taken from a roundtable discussion at Harvard University several years ago with some of the nation's top museum directors.

Glenn Lowery, Museum of Modern Art, New York:
'On one level it's almost a moral duty that museums should be free. Our collections are part of everyone's cultural heritage. We should make them available in as broad a way as possible. And an admission fee is one of the greater barriers to attendance.'

Phillip DeMontebello, Metropolitan Museum of Art, New York:
'Wait a minute. Can we be both practical and philosophical? On the matter of barriers, the people who squawk the most about the cost of a museum pay huge amounts of money to go to rock concerts, sport events, all of which are very expensive. I don't buy that "barrier" thing. Philosophically, what is it about a work of art that makes it mandatory that it should be available for nothing, whereas the C Sharp Minor Quartet Opus 131 of Beethoven should be paid for, that *Aida* should be paid for, that Ibsen should be paid for? What is it about art that it *shouldn't* be paid for?'

There can be a public backlash when performing arts institutions are perceived to not be working toward making programmes more affordable, and therefore available, to a broader audience. But in the museum world this backlash can take on a particularly virulent tone.

In the United States, there has been a running debate surrounding museum admissions where pricing decisions are framed – and criticised – in terms of moral choice. There is a nationwide shift towards the idea that visual arts institutions have an obligation to serve and educate the public by providing relatively unfettered access to their collections and, in this way, make the arts a more meaningful presence in people's daily lives. It's a nice sentiment and an ideal to strive for, but the reality is very different. There has always been a high cost for culture in the United States and operating an institution is expensive. With limited public funding, there are few museums in this country in a financial position to suspend admission fees.[12]

One museum's decision to raise admission rates

When the Museum of Modern Art (MoMA) closed its doors in mid-town Manhattan for a two-year $858 million overhaul, it moved to a temporary space in Queens, one of the city's outer boroughs where it drew a more socio-economically and ethnically diverse audience – the kind many urban museums work hard to attract. But renovation costs left the museum with a yawing budget gap that directors felt could only be filled by an increase in admission fees. There was internal debate over the best way to bridge the gap and the types of admissions models that would best serve the museum's fiscal needs and the needs of patrons at the same time. An à la carte model similar to that of the Tate and other London museums, where visitors would be charged separately for various experiences, was considered and rejected, as was a demand pricing scheme that set variable time-sensitive rates for admission and special events. It was finally determined that, for MoMA patrons, these approaches would be an irritant and would put the greatest price pressure on local New Yorkers, something the museum wanted to avoid. In the end, the simplest scheme won out – raising the basic admission price and making it all-inclusive.[13]

Membership has its privileges

Group A
Seven friends decide to go to the MoMA on a Sunday afternoon. At $20 per person, the visit costs a total of $140. If Group A decides to come again within 12 months, they will once again pay $140 to get into the museum.

Group B
A couple purchases a Dual Membership for $120/annum (100 per cent of which is tax deductible). One Sunday afternoon,

they invite five friends to join them for a special exhibition; including the couple, that makes a group of seven. The cost for up to five guests per visit is $5 per person. The total cost of the visit for Group B, including the couple's membership fee, is $145.

So, for $5 more on the total bill for this first visit, Group B can then return to enjoy year-round access to the institution for a total of just $25 per visit. And, of course, the couple can also come back as many times on their own as they want for free.

This calculation does not factor in additional benefits, including free film screenings, invitations to member's only events and discounts on programmes and at the MoMA shop.

While a higher admission served to satisfy the museum's budget demands, some critics believe it put the museum in the unfortunate position of limiting access to the collection and largely abandoning the visitor diversity it had built in Queens. MoMA has tried to soften the blow with stable membership rates and several discounts – a low student rate, free admission for children under 16 and students from local universities, and free admission for all on Fridays from 4pm until closing.

However, a base admission price, regardless of additional perks, still has an impact on the perception of value – the higher the price, the higher the expectation of the visitor and the greater the risk of disappointment. The $20 ticket price at MoMA and other museums in New York City, such as the Metropolitan Museum of Art and the Guggenheim, may mean that a narrower slice of the local population is currently visiting these galleries, or visiting less frequently than in the past, restricting the popular use of New York's signature institutions.

When it all goes horribly wrong – lessons from the Neue Gallerie

The Neue Gallerie, one of New York's newest art institutions, is a tiny Fifth Avenue museum focused on Austrian and German art. It is also a museum that found itself in the middle of the very public debate over rising admissions prices in the summer of 2006.

That summer, the museum added a new and important painting to its Klimt collection. Purchased at auction by the museum's founder, the cosmetics magnate Ronald S Lauder, the painting attracted a lot of media attention, not least because it was purchased for a record-breaking $135 million. The Neue Gallerie can only accommodate 350 people at a time; the gallery where the Klimts are on view, only about seventy. Because of the media attention surrounding the sale of the painting, museum directors saw an opportunity to reduce the heavy lines of patrons and generate extra revenue by charging $50 to view the Klimt on the museum's closed day, when the gallery would be less crowded.

This idea is not without precedent. The Metropolitan Museum of Art has long offered the ability to view special exhibits for $50 admission on its members' day. But for several reasons the Neue Gallerie seemed to hit a tipping point that caused a public uproar. There were cries of crass opportunism, price gouging and naked elitism and what began as an effort to increase public access and generate revenue ended in a public relations nightmare that forced the museum to do a quick about-face and retract the offer.

To attempt to pinpoint any one reason why the Neue Gallerie tipped the balance of what the public will accept as reasonable is difficult and, indeed, any number of factors were at play. In New York City, as everywhere, a museum does not act in isolation; it exists within a larger framework of other museums and cultural institutions that share patrons, resources and press. In deciding to introduce a special $50 admission, the Neue Gallerie may have overplayed its hand with a patron group already fatigued by a $20 admission at both the MoMA and the Metropolitan Museum of Art, $18 at the Guggenheim and $15 at the Whitney. The fact that this painting sold for what some considered a sum offensive to their sensibilities, particularly in the time of war and a weak economy, may have been another contributing factor to the public's overall disdain.

There are those who believe the museum has a right to protect itself from competition (or an operating deficit), as any institution does, and, by charging $50 to enter the gallery, its directors were acting with the organisation's best interests in mind by capitalising on the newest addition to its collection and the publicity surrounding it. But this sentiment brings us back around to the core debate over admissions – that even though a museum has the right of self-preservation, does it not still have a responsibility as a contributor to the growth and understanding of culture? Should it aim to ensure that its collection is available to the widest cross-section of the population at a reasonable fee?

When evaluating all of the contributing factors side by side in an attempt to determine which are dominant, the simplest explanation is often the right one. It might be best, therefore, to conclude that what happened with the Neue Gallerie was the case of a management team that overestimated the perceived value of what they had in their Klimt and what the public was willing to spend to see it. It is somewhat ironic that in a city otherwise known for its excess, paying $50 to view a painting that cost $135 million was more than the public could bear.

Conclusion

Pricing alone does not determine attendance. What most cultural organisations – performing and visual arts – understand is that it is the thoughtful and strategic mixture of marketing's four Ps – programming, promotion, placement and price – which is critical to building and maintaining audiences. If an organisation is to remain viable and competitive, variable and demand pricing, flexible subscription and membership schemes, and the vertical integration of additional amenities are only parts of a marketer's toolkit that must work in tandem with all of the components of the larger strategic planning mix.

There are many financial and competitive pressures affecting the New York City arts market, but overall it is healthy and robust. It may be a noisy and cutthroat place to do business, but it's still considered one of the most innovative and forward-looking cultural centres in the world. It is also a landscape that will continue to change and be changed by new technologies, new competitors and new pressures forcing producers and managers to stay ahead of the curve with new and creative ways of scrutinising audience behaviour, creating diverse cultural experiences and pricing them accordingly.

References

1 In the United States, non-profit is a tax status designation given to mission-driven charitable institutions. The business activities of non-profits, whether cultural, religious or socially based, must be in direct support of the organisation's mission, and all earned and contributed income must support mission-related activities. In exchange, non-profit organisations are 100 per cent tax exempt.

2 The US government supports the country's cultural institutions primarily through tax exemptions as opposed to direct funding. The National Endowment for the Arts, the country's federally funded grant programme, has an annual budget of only $125 million (£1 = $1.86 as of December 2006), which represents cultural spending of a mere $0.42 per US citizen, per year.

3 By 2060, according to the projections, non-Hispanic whites will make up 49.6 of Americans, with Hispanics at 26.6 percent, non-Hispanic blacks at 13.3 percent, and Asians and Pacific Islanders at nearly 10 percent (*Time Magazine*, 31 August 2000).

4 'Who Goes To Broadway? The Demographics of the Broadway Audience 2003-2004 Season', p 5, LiveBroadway.com

5 Discounts have softened the price increases of recent years. While the top ticket price for a Broadway show has risen 31 per cent since 2000, the average price actually paid for a ticket in the same period has risen only 24 per cent.

6 Campbell Robertson, 'Broadway Weighs Plan to Reward Frequent Theatregoers', *The New York Times Online*, 18 September 2006, p 7

7 The company has been careful not to label the tickets 'cheap seats' but rather to promote the programme as one where $40 of a full-priced $55 ticket has been underwritten so that it may be offered to the public for $15.

8 Statistics provided by Signature Theatre Company

9 Acronym for Lesbian Gay Bisexual Transgender

10 New York City Department of Cultural Affairs, Nyc.gov, p 11

11 This number includes Jazz at Lincoln Center's new theatres but does not include the three performance spaces at the Juilliard School.

12 James Cuno, ed., *Whose Muse? Art Museums and the Public Trust*, Princeton University Press and Harvard University Art Museums, 2004, p 12

13 David Leonhardt, 'The Shock of the New Entry Fee', *The New York Times Online*, 26 September 2004, p 13

New thinking about the strategic role pricing can play in the arts

This first major publication on pricing in the arts offers no easy answers or failsafe formulas but sets out to challenge assumptions and to provoke debate.

> 'Written intelligently and with enough points of contention to stimulate debate, I think this publication will be a good reference for arts managers, including CEOs and directors like myself. It alerts us to the issues and practices that our own teams will be studying and, in case they're not, raises questions that we can explore in terms of tailoring our pricing and related strategies to our twin artistic and financial imperatives.'
> *Tish Francis, Theatre Director, Oxford Playhouse*

Pricing, once barely researched or mentioned in the arts, is increasingly recognised as a critical marketing and financial tool. In terms of maximising revenue, the growing adoption and adaptation of yield management techniques suggests that a new, more dynamic approach to pricing is emerging. In terms of developing audiences and, beyond that, achieving wider social access to the arts, price also has a part to play, though how significant a part is still a matter for fierce debate.

By exploring current theories about pricing in the arts and describing actual examples of practice, this book is intended to inform and inspire arts organisations, whether or not they are publicly subsidised, to develop their own strategic thinking with greater confidence.

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