

APACA

Pricing Strategies for Additional Income Generation

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"Everything is worth what its purchaser will pay for it"
(Publius Syrus, Sententiae, First Century BC)

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Why pricing?

- A sophisticated pricing strategy can achieve a wide range of objectives:
 - Increase yield
 - Increase volume
 - Promote access
- The cultural sector offers a huge range of variables that can be adjusted to achieve those objectives
- Pricing strategy is structural, so changes keep working, year on year
- Price goes straight to the bottom line: a 5% increase in yield can create a 100% increase in profit / surplus
- The potential returns are huge

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There are effectively only three approaches to pricing strategy...

- Skim pricing
- Neutral pricing
- Penetration pricing

so how do you decide which (combination) is best for you?

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Pricing strategy is determined by four factors, and your objectives in relation to them



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The PRICE someone is willing to pay depends on the VALUE they perceive they will receive in exchange

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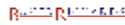
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Remember that value comes first

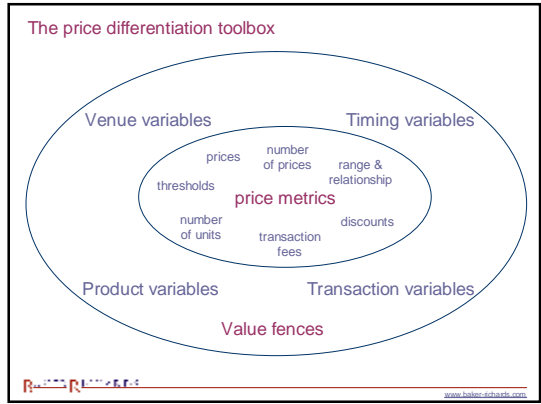
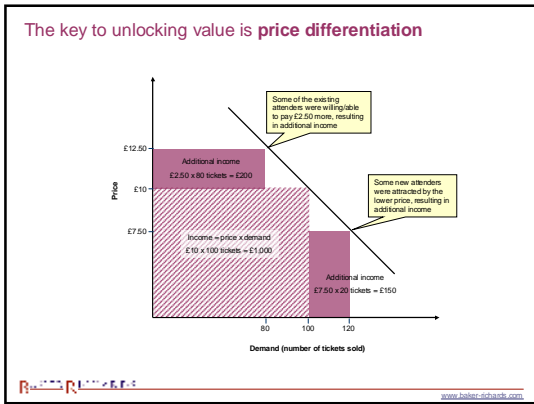
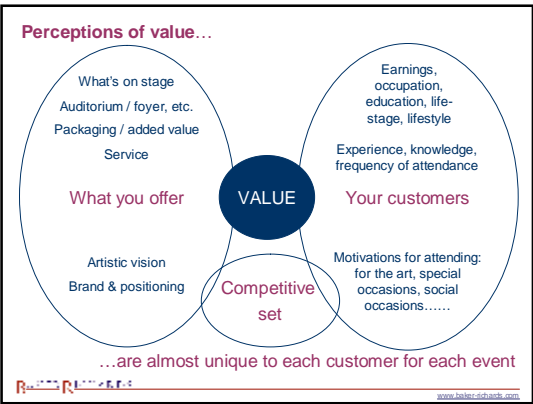
If you don't...

- Comprehend value
- Create value
- Communicate value

....then your prices are irrelevant




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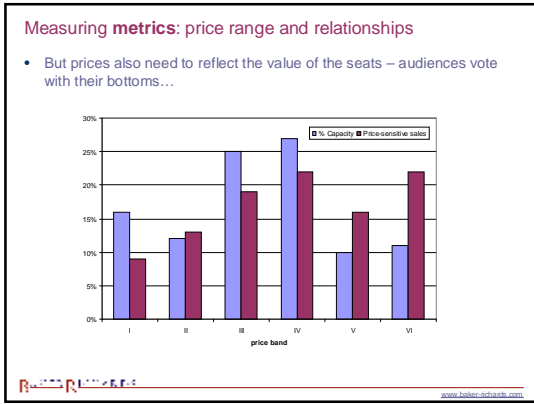
Measuring metrics: price range and relationships

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

- Do your prices encourage bookers to trade up...
...or down?
- It's not just the top price...
what's the range from top to bottom, how many prices in between and how big a jump – can all affect the attractiveness of each price

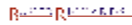


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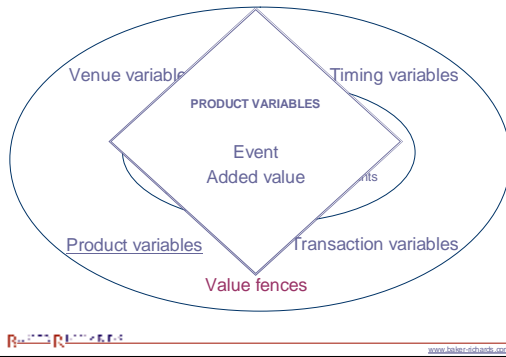
Value fencing

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



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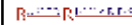
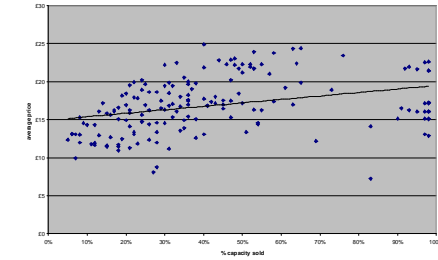
The price differentiation toolbox



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Measuring the effect of value fences: product variables don't always work

- If people want to attend, charging more doesn't put them off. Neither does charging less help if they don't want to attend...



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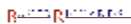
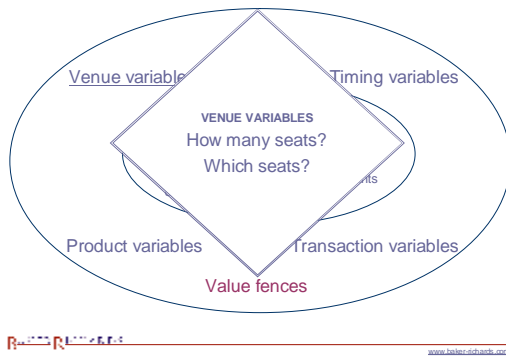
Creating added value: Premium Seats

- Top price + £7.50
- Benefits
 - Best seats
 - Programme
 - Pre-show drink
 - Priority bar queue
- Promotion
 - "Premium seats are available. Please ask when booking"
- Impact
 - 12% of all tickets sold were Premium
 - Net income on 2 tickets after: £8.75
 - Net annual income: £43,750



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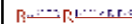
The price differentiation toolbox



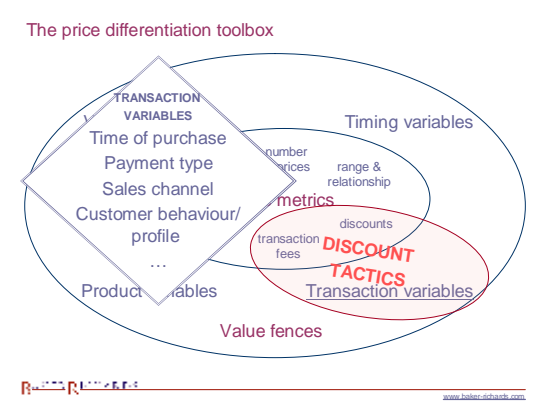
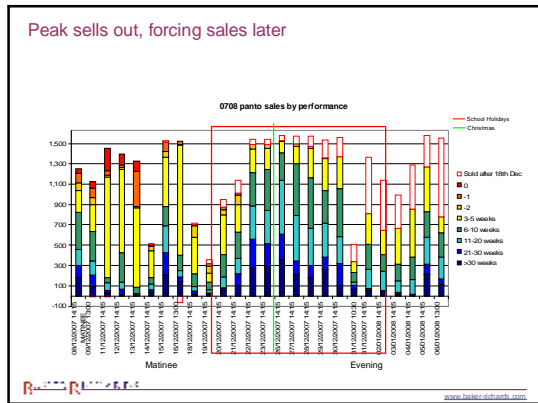
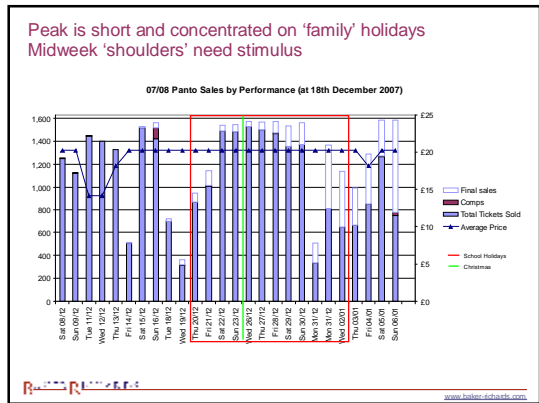
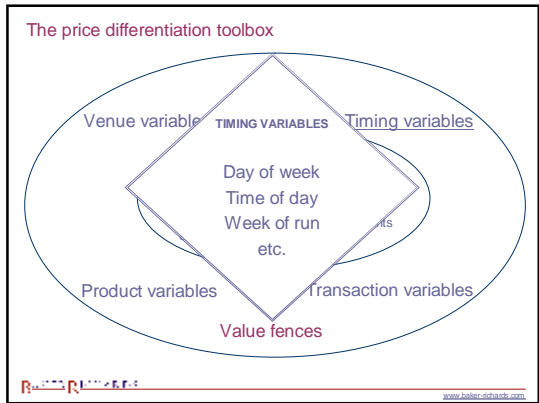
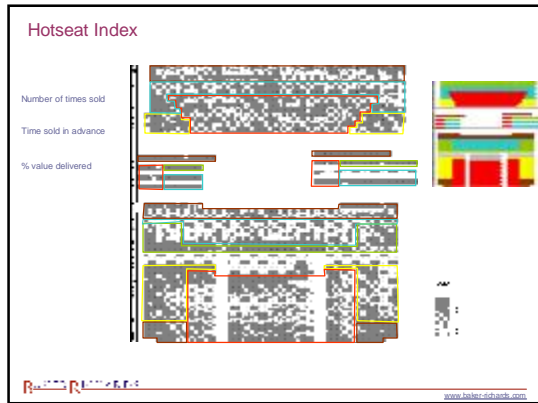
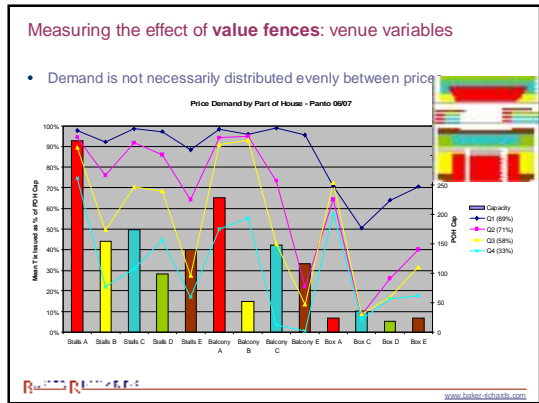
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There is always a best seat

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



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Pricing tactics

- Concessions to meet social objectives
- Sales promotion to achieve audience development objectives (i.e. value fences)
- Revenue management



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Concessions: Key Issues

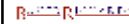
- Who are concessions for?
- Promoting genuine accessibility
- Differentiating concessions
- The need for consistency
- Protecting the bottom line
- The need for a written policy



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Sales Promotion: using price to achieve audience development objectives

- New Attenders
 - Free Trial / Test Drive
 - Pay What You Can
- Early booking (cashflow)
 - Full price on the door
 - Early Bird
- Group booking (volume)
 - Twofer.... Four for Two
 - Groups
- Shifting unsold seats (desperation)
 - Standby / Rush
- Frequency (the silver bullet....)
 - Loyalty schemes
 - 'Café Nero' card / money off next purchase
 - Subscription...



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Sales promotion: discounting for income growth

- Gaining a new customer costs at least FIVE times as much as keeping an existing one
- Frequency is most tractable: current attenders already understand the value, and thus the 'deal'
- Discounting to sell tickets to 10 performances is therefore FIFTY times more cost-effective
- Promoting frequency increases sales, reduces marketing costs, and....
 - Frequent customers are more likely to take risks
 - Frequent customers are easier to retain
 - Lifetime value



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Using Discounting to Differentiate & Maximise Income

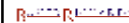
- Differentiated discounting can be used to:
 - Maximise income
 - Optimise sales & access
- By adjusting:
 - Applicability
 - Availability
 - Discount Rates
- According to:
 - Product variables
 - Transaction variables



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Revenue management

- Highly effective in many sectors
 - Airlines
 - Rail
 - Hotels
 - TV Advertising
- Essentially it sets a range of price classes and then opens and closes availability of each price class according to comparison of actual sales against forecast sales
- Key tactics used:
 - Discount control
 - Inventory management
 - Overbooking
- Need to understand principles and apply them in unique ways to the arts sector



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Revenue management

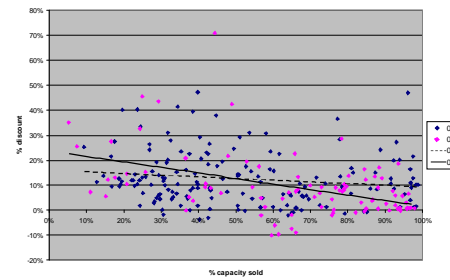
- The main principle of revenue management is to adjust price differentials in response to changing customer demand in order to maximise both occupancy and income
- Revenue management tactics can be thought of on a continuum: static to dynamic
- Two approaches:
 - Below the line
 - Above the line

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Revenue management: "below the line"

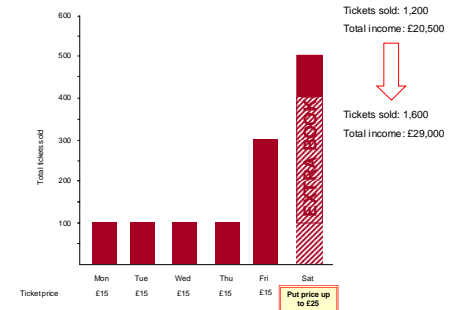
- Small changes can be worth £000's...



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Revenue management: "above the line"



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Presenting Prices

- Using price propositions
 - Helping to develop and check pricing strategy
- How much do you need to tell people?
- Top down or bottom up?
- Price promotions are the message...
- There's more than one way to skin a cat:
 - Free tickets
 - Fixed price
 - Fixed discount
 - %age discount
- Above all... KISS!
 - "Keep It Simple, Stupid!" A system that appears complex to the customer will not work.
 - But it can be 'swan-like'

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Devising a price proposition

- What is the public message we want to send out with our pricing?
 - About what we do
 - About who we want to come
- What is the behaviour we want to reward and to penalise?
 - What customer behaviour in terms of frequency, party size, when they book, when they come?

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Example of a price proposition (1)

- Our pricing reflects the fact that all of our shows are good quality
- If it's a popular night for a popular show, you can expect to pay more
- We reward loyalty
- We want more young people
- If you're poor we'll make cheaper ticket prices available for you

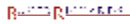
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Example of a price proposition (2)

- Our Fair Price Promise
 - £9.50 Saver Tickets for every event, online only
 - No concessions – we offer a range of prices to suit every pocket and guarantee tickets for £9.50 online for every performance. These tickets are available to everyone regardless of status or age
 - It costs us less, so all tickets are £2 cheaper online
 - No internet access? No problem – use the terminals in our foyer
 - There are no hidden transaction fees or charges – we even post your tickets to you for free
 - Our only caveat is that tickets are subject to availability – so to get the best deal book early.

 - You will always get the best deal by booking early and online.



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The price is right

- It's not about price, it's about value
- Perceptions of value are almost unique to each customer for each event
- The key to unlocking value is price differentiation
- The price differentiation toolbox offers many options for meeting customers' price perceptions: the question is which tools to use
- Revenue management allows you to adjust differentials in order to optimise volume of sales as well as yield
- Review your pricing regularly and, as a rule, increase prices little and often
- The presentation of your prices should be swan-like: serene on the surface with all the activity going on underneath!

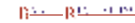


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