

## What price value?

*This essay is based on a presentation given by Tim Baker to the APACA Conference, Melbourne, 5 July 2008.*

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

Thousands of young men pay large amounts of money to attend sports events every week. Would they pay the same to watch a play, go to a concert or attend contemporary dance? In most cases, probably not. But price is not the problem - it's the *value* (or lack of it) that they associate with the experience on offer.

## How Much?

*How Much?*<sup>1</sup> describes a major project undertaken by Sheffield Theatres between December 1998 and December 2000. The original aim of the project was to investigate the importance of price sensitivity among young people, but it was soon realised that price was by no means the only, and often far from being the most important, barrier to young peoples' attendance at the arts.

The *How Much?* project incorporated a comprehensive programme of action research and original quantitative and qualitative research with young people, aged 16-24, in Sheffield. The project included research with non-attenders as well as a fully-branded scheme offering tickets at £3.50 for carefully selected shows, promoted using specifically targeted publicity material.

Across both attenders and non-attenders, the research found that financial constraints were most often cited as deterring attendance at the theatre. However, as so often with pricing, the real story is more complex. One of the key findings concerned young people's leisure spend: over half expected to spend at least £45 per week on “nights out”. Clearly many young people have the money to spend, but choose not to spend it on the theatre - unless the show is right.

The research findings were summarized as follows: “for attenders and non-attenders, price was not an absolute constraint to theatre attendance, but the uncertainty of what they would get in return for their

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<sup>1</sup> 'How Much', Angela Galvin, Peter Taylor, Sophie Withnall & Elizabeth Owen (Arts Council of England, 2000)

money resulted in theatre being more susceptible to financial reasons for non-attendance than other leisure activities” (ibid.). In other words, like many people they were using price to rationalise their lack of understanding of the value that the experience offered.

This finding is borne out by the Test Drive experience. Test Drive involves giving people tickets without an exchange of money, so that they can sample an experience they might not otherwise consider. But these are not simply complimentary tickets (indeed, it is important that the face value appears on the tickets so that people understand the value of the event they’re attending) because Test Drive is not really about price, it’s about “inviting people to come to events as our guests to see for themselves what [value] the arts can offer” (Andrew McIntyre, Radio New Zealand, 2006). Price incentives are not enough on their own, you also need to describe value to people in relevant ways and overcome other barriers. Key components of a successful Test Drive scheme include direct and personal communication, jargon-free copy, readily-available basic information about the venue and experience, social elements to the offer (gatherings and receptions) and sometimes the provision of transport.

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

## Price and Value

“Price elasticity of demand” explains the correlation between demand for a product (i.e. the number of tickets sold) and changes in price (assuming all other factors remain constant). In general, if you charge more for something, you’ll sell less of it, and vice versa. The underlying logic is undeniable, but while price elasticity of demand offers a persuasive argument that reducing prices will increase sales, is reducing price the best way to promote arts attendance? Advertising a lower price can work in particular circumstances, but unless the message is carefully managed there is a danger that it simply devalues the experience.

One problem is that those working in the sector can undervalue their “product”. This lack of confidence is compounded by the perishability of most arts products: if you don’t sell it by curtain-up, you can’t put it on the remainder shelves. This often leads to indiscriminate last-minute discounting, further undermining perceptions of value among people working in the sector as well as their customers. In the worst cases, price may be used as an excuse for not engaging, blaming high prices rather than properly understanding and responding to audiences’ needs.

Price and value are two sides of the same coin. When trying to make something more attractive to recalcitrant audiences we tend to reach automatically for the price discount, rather than thinking about how we can increase the value. Rather than simply reducing prices, we need to develop a better understanding of what people value, and better skills in creating and communicating that value. If we can do that, a sophisticated pricing strategy can be used to maximise both access and income.

When economists refer to value they talk about the ‘utility’ that a product or service offers – the practical usefulness – which in many cases can be ascribed a monetary value and compared to the value and cost of competing goods and services. However, in the arts, the value we offer is far from being so tangible; it can be hard to define any practical utility that the arts offers. Instead what we are dealing with is people’s perceptions of value.

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

Perceptions of value depend on a wide range of factors, including the profile of the customer. There are some customers for whom lack of disposable income creates an actual barrier to attendance, but for most people it is about what people are willing, rather than able to pay. Malcolm MacDonald acknowledges that in any market there will always be a cost-sensitive segment, but suggests this is rarely more than 10% of the market<sup>2</sup>.

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

The needs people are trying to meet when they go out also define their alternatives. This sets the context for price – what value are they seeking? – and allows you to understand your competitive set and the context within which customers are weighing up the price and the value that you offer.

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<sup>2</sup> Presentation to the Arts Marketing Association Annual Conference, 1999.

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

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

So, how do we address these perceptions of value more effectively? There are three main components to value (“the three Cs”). We need to *Comprehend* what value people are seeking, *Create* relevant value to meet those needs and then *Communicate* it effectively.

## Comprehending Value

For some people attending some events, there is simply no substitute – “it’s that artist/play/soloist I want to see” – but for many others (possibly most arts attenders), attending the arts is one of a number of options they may choose from as a way of meeting some other need. In understanding motivations for going out, we must appreciate that these needs could be different at different times, and that different people will seek to satisfy the same needs in very different ways.

Leading US Researcher Alan Brown, of Wolf Brown, has spoken and written of developing an “Architecture of Value”<sup>3</sup>, building on the research available in *Gifts of the Muse*, published by the RAND Corporation and the Wallace Foundation. This work illustrates the point that the value created for individuals by art goes far beyond the “product” presented in our theatres, galleries, concert halls and community venues.

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<sup>3</sup> ‘An Architecture of Value’ by Alan Brown (Australia Council for the Arts Conference, 2007, published on Fuel4arts.com).

Brown's article sets out new terminology for the benefits people gain from participating in the arts, placing these benefits along two axes. One axis represents the social aspect of benefits; whether they are individual, interpersonal or community benefits. The other axis represents time; benefits may be during the arts event, before or after it, or cumulative. So, for example, there can be an individual benefit experienced before attending an arts event, in the anticipation, the getting ready and so creating a sense of occasion, and then, perhaps, an interpersonal benefit in meeting up with friends and sharing the prospect with them; and this is all before the event has begun.

Brown places five categories of arts benefits between the two axes, starting with the "imprint" of the arts experience itself in the "Individual/During" corner, and with economic and macro-social benefits in the "Community/Cumulative" corner. At the heart of the framework is the human interaction category, encompassing benefits such as "family cohesion" and "a larger social network" (things which lead to wider economic and social benefits).

A brief brainstorming exercise with a company in Edinburgh offering creative classes came up with a surprisingly long list of motivations to attend wood-carving sessions. Benefits listed included: escaping the routine, getting away from the kids, engagement with artists, socialising with like-minded people, something to talk about (that isn't work), self-validation, learning a skill, expressing creativity, making something, and maybe even selling it. Focussing only on the opportunities for social interaction that the arts offer, a list of potential motivations for going out could include: seasonal celebrations (e.g. Christmas), birthdays, anniversaries, dating, entertaining visitors, relationship maintenance, meeting people, catching up with a social group, keeping up with the Jones's, things to do before you're 30 (or 40 or 50), escapism and relaxation, self-development, keeping active, family day out, keeping the kids out of trouble, educating the kids, or just experiencing "the latest thing".

Using basic market data, we made some estimates of the size of the market for some of these motivations in Edinburgh. There are approximately 448,624 birthdays celebrated in the City of Edinburgh each year; there are 76,650 married couples in the same area, many of whom will celebrate anniversaries; some proportion of the 60,671 single people aged 25-44 will go on dates at some point; there are 48,000 families with children under 12; the 'visiting friends and relatives' (VFR) market represents 45% of UK tourism to Edinburgh, equivalent to 3,649,500 bed nights. All of these people could be considered potential arts attenders – if we can create relevant value to match their needs.

## Creating Value

Of course, the event itself lies at the heart of the value a customer will attach to it. How 'special' is that event? Is it a normal part of your season, or a 'once in a lifetime' experience with a star performer (nothing drives perceptions of value like perceived scarcity)? Nonetheless, a lot can be done to

enhance enjoyment of the actual performance or event. This might mean better explanatory copy in programmes, or more post-performance talks, or other information to make customers feel better-informed about what they are buying.

There is sometimes a fear that creating value will mean the marketing ‘tail’ wagging the artistic ‘dog’, and although there are certainly occasions when more thought to customers needs and behaviour could be employed in programming, there is lots that can be done with elements of the product ‘wrapper’ without affecting what happens on stage or on the walls.

At the simplest level this can be about ensuring that those social motivations for going out are addressed, making the whole the experience as enjoyable as possible. Parking is often a problem; are you explaining clearly where to park, or reserving spaces for patrons, or even laying on transport? Some theatres organise transport for schools, for example, encouraging teachers to see their theatre as a comparatively “easy” school trip option. All theatres have a cloakroom, but most of them involve queuing and a delay at the end of the night; could facilities be improved, or a VIP coat-check service introduced? Many theatres have restaurants, but how many offer as standard to make a reservation there? Are the opening times convenient? If you have a children’s show, do you serve the same menu as when there is an opera? Most theatres have bars, but again there can be a lot of queuing involved, and are your bar’s atmosphere, menu and music right for your clientele?

“Adding value” to your wrapper does not necessarily mean creating a premium offer. At Centrepoint Theatre in Palmerston North, there is one bar associated with the main auditorium, and another associated with the studio space. The latter deliberately caters for the younger audience by being as different as possible from the more comfortable main bar. It is a very basic space, open late, with drinks served from a table rather than an elaborate bar. This space does not appeal to the older audience of the main auditorium, and that is precisely why the younger customers value it.

Diane Ragsdale in her paper ‘Surviving the Culture Change’<sup>4</sup> gives a number of other examples such as the Foundry Theatre in NYC, where patrons bought tickets to an ‘Open House’ performance in one of 24 apartments across the city. Elsewhere in the US, during the 2007 Philadelphia Lively Arts Festival, patrons were able to book a dance troupe to perform in their own living room and then invite their friends as the audience.

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<sup>4</sup> Creative New Zealand 21<sup>st</sup> Century Arts Conference, 2008

## Communicating Value

It may seem obvious, but as suggested in the conclusions to the 'How Much' study, if you do not communicate value effectively, there is no value. It also follows, however, that if you can communicate value more effectively, you can increase perceived value.

The key to communicating value is understanding the difference between features and benefits. The website Entrepreneur.com defines benefits as: "A product or service's customer-oriented strengths; statements of a valuable product or service feature, with an emphasis on what the customer gets from the products" and goes on to give some useful examples of what a benefit is not:

[Many] marketers assume that prospects will understand why they should buy their product or service just because they've been told about it. Thus, business owners only communicate the features of their product or service to prospective customers and neglect to mention the benefits.

Take a look at the list of features below, taken directly from current advertising and marketing materials:

Self-setting clock on a DVD player

50-number speed dial

Open 24 hours

Each is a feature - a factual statement about the product or service being promoted. But features aren't what entice customers to buy. That's where benefits come in. A benefit answers the question "What's in it for me?" meaning the feature provides the customer with something of value to them. So - and this is where most businesses go wrong - that must mean:

The benefit of a self-setting clock is convenience.

The benefit of 50-number speed dial is fewer keystrokes.

The benefit of a store open 24 hours is you can shop there whenever you want.

While these may seem like true benefits, they're really just elaborations on the features. So what is truly a benefit?

The best way to understand the true benefit of your product or service - or to answer the "What's in it for me?" question - is to focus instead on results. A customer's perception of each feature's results is what attracts him or her to a particular product or service. When someone chooses a VCR with a self-setting clock, the assumption is that the benefit is convenience, but the actual results are that they don't have to read the instructions, watch a blinking 12:00, and, most important, feel stupid. Those results are the true benefits.

When you try to sell the features of your product or service, you're making the customer do all the work to figure out why they want the feature. It's in a seller's best interest to draw the connection for them. But to do that, you have to know the results yourself. Let's take another look at that features list to see the possible benefits from the customer's point of view:

Self-setting clock: I won't feel dumb!

50-number speed dial: I can keep in touch with my best customers without effort, and I won't get frustrated misdialing.

Open 24 hours: When my pregnant wife craves pickles and ice cream at 4 a.m., I won't have to disappoint her.

By this time, you should be mentally going over every sales pitch or marketing message you've been using with great trepidation and rightly so. If you look carefully and honestly, you'll most likely find that your benefits are really just more features.<sup>5</sup>

Expressing the benefits offered by an arts experience is however, often difficult, and nowhere more so than in classical music. This difficulty can be illustrated by drawing an analogy between classical music and computers. Computer manufacturers describe their features in terms of GB of RAM, Mhz of processor speed, “Intel Dual Core Processors”, graphics-card types and broadband speeds. The benefits of these things (which you won't be able to assess if you don't understand the jargon) are the ability to do your work quickly and efficiently, or to look at your photos and be reminded of your holiday, or to watch a movie online with your friend. Much promotion of classical music seems to bear more resemblance to the language of RAM and Mhz; features rather than emotional benefits. It lists symphonies, concertos, sonatas, and the dates of (mainly) dead Austrian men. The accompanying pictures are of (mainly) balding middle-aged men in black suits and bow ties. This information is all that is needed for someone steeped in classical music to know all they need to about the experience being offered – regular attenders will be able to hear the piece in their head just from reading the listing. But what about everybody else? What exactly is a ‘symphony’, or a ‘sonata’, and how can you tell if you might enjoy them? What we need to communicate is the feeling that you can get from hearing a symphony orchestra in full flow, the tingle down the spine.

We also need to better communicate the social benefits, while making sure that we provide the practical information to back these up. Many arts organisations seem to take it for granted that people know about their theatre and don't need to see a picture of the auditorium before choosing where to sit, don't need to know where to park, or that there's a bar or a restaurant. When these things do appear in brochures, they're usually tucked in the back. How about leading your campaign on the enjoyable social experience? To communicate the fun or the glamour of a night at your venue, why not show pictures of people (ordinary audience members) enjoying themselves at the venue, rather than arty (or not so arty) production shots or pictures of balding middle-aged men?

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<sup>5</sup> <http://www.entrepreneur.com/marketing/marketingbasics/article34942.html>

## Value and Brand

In a sense, Brands are value. Or rather, they enhance value by communicating it more effectively. Brand value is usually external to the specific attributes of a product; designer clothes create a value – and thus willingness to pay a price – that goes far beyond the basic utility offered by the item and should therefore be an ideal means of communicating (and thus creating) perceived value for the arts. Commercial brands such as Coca-Cola invest millions in creating (by communicating) brand value through advertising spend and, for example, Nike enhances the perceived value of its goods by having its ‘swoosh’ logo discretely placed on sportspeople from Tiger Woods down. The challenge for the arts, of course, is that we don’t have remotely the kind of money required to ‘buy’ brand value in this way. Instead we need to create and communicate brand value through the small things: the images that communicate a welcoming environment that’s for ‘people like me’, the way we address people in emails as well as in person, the care taken over basic facilities that form a key part of the wider experience of attending or participating in the arts. One of the ways that we can do this is by offering real relationships with individuals that they value.

Many brands create a sense of familiarity or trust. While there is a small segment of the arts-going market that actively seeks out risk, for the majority of customers, risk is, in a sense, the opposite of value. An experience that is new or unfamiliar makes it very difficult for the customer to understand the value it might offer, and thus weigh up whether the price is a fair one, but the “stamp” of a familiar brand helps the customer to feel that their purchase is low-risk. In certain circumstances a lower price can help overcome perceptions of risk, by suggesting a “bargain”, but it can work the other way; a higher price can suggest higher quality (which is why Stella Artois used to claim to be “reassuringly expensive”) and a lower price may suggest lower quality. You may choose a supermarket for its cheapness, but you’re unlikely to pick your dentist purely on the basis of price.

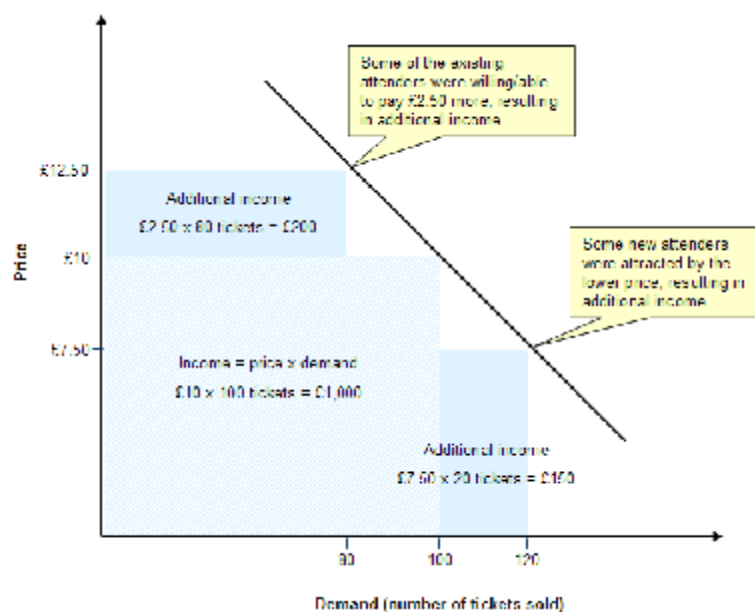
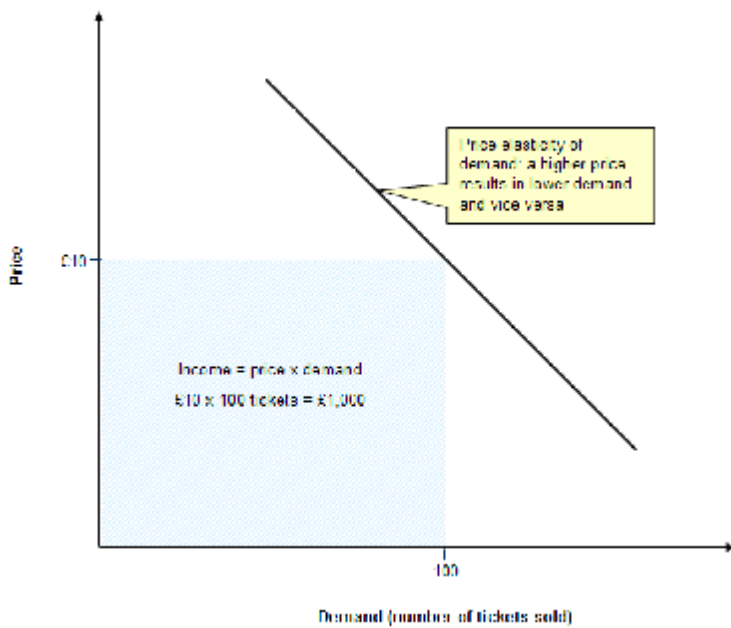
## Value and Price

Perceptions of value result from so many different factors that they are almost unique to each customer for each event. This has important implications for pricing, because the price that customers are willing to pay varies significantly. The key to maximising both income and accessibility is to differentiate prices to reflect that variability, having a wide variety of price points to meet different perceptions of value.

There are examples where it is difficult to have more than one price (such as in the visual arts), and there are sectors in which a single price works well (such as popular music, where it is commonly

accepted there is just one price for a gig). However, having only one price leaves you with very few options when you need to increase income: you can either put the price up or try to sell more tickets.

Price elasticity of demand means that with only one price there will always be some people who would have paid more, and non-attenders who may have come had you charged less. Both represent lost income opportunities. The diagrams below illustrate the basic principle: the black line represents the (hypothetical) relationship between price and the number of people attending; the more places at which you can meet that line, the more income is generated and the more people are able and willing to attend.



Whether your organisation is large or small, performing or visual arts, the principles of price differentiation apply. If it is not possible to put “price breaks” in an auditorium, or your organisation is not auditorium-based, you need to look at other options for differentiation. That might be differentiating by day of week, time of day, time of booking, or product, among other things. In cultural organisations there is a wide variety of tactics that can be used to differentiate prices. The key to a sophisticated pricing strategy is setting a range of prices to reflect the individual value perceptions of different customers for different events.

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