

Dynamic Pricing

Tessitura UK User Group Conference

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12th November 2010



THE PRICING INSTITUTE
PRICING INSIGHT FOR THE ARTS

BAKER**RICHARDS**

Why pricing?

- A sophisticated pricing strategy can:
 - increase income
 - maximise ticket sales AND
 - promote accessibility
- The cultural sector offers a huge range of variables that can be adjusted to achieve those objectives
- Optimising decisions on the tiniest details can add up to significant marginal gains
- Those gains are multiplied through flexibility offered by revenue management and dynamic pricing
- It delivers a measurable return on investment
- And the additional income is ‘free money’ to reinvest

Examples of additional income delivered

- Utilizing the concepts outlined today:
 - A theatre increased average price by 2.7% but yield by 9.5%, predominantly through discount control
 - An orchestra increased average price by 9%, but yield by 12% through subtle re-scaling of the auditorium
 - A theatre increased sales by 12% and income by 23% to generate an additional £160,000 on one production by adjusting scaling and the variable pricing of performances
 - Another theatre reduced Panto performances by 16%, but changes to scaling, variable pricing by performance and discount control delivered a 9% increase in total income, despite the shorter run and only a 3% increase in average price
 - In one year, Birmingham Hippodrome increased income by £460,000 by implementing a combination of tactics
- Minimum ROI of 200% on every evaluated study...

Over 250 clients worldwide, including:

- Performing Arts Centres
 - Sydney Opera House
 - South Bank Centre
 - Wales Millennium Centre
- Theatres
 - Royal National Theatre
 - Birmingham Hippodrome
 - Young Vic
- Orchestras
 - London Symphony Orchestra
 - City of Birmingham Symphony Orchestra
 - Royal Scottish National Orchestra
- Festivals
 - Edinburgh International Festival
 - Edinburgh Festival Fringe
- Opera
 - Glyndebourne Festival Opera
 - Malmö Opera (Sweden)
 - Finnish National Opera
- Visual Arts/Museums/Visitor Attractions
 - Royal Academy of Arts
 - National Galleries of Scotland
 - Historic Scotland (72 properties including Edinburgh Castle)
 - San Francisco MOMA
- The Pricing Institute Clients (US)
 - Center Theatre Group (LA)
 - Stratford Shakespeare Festival
 - Philadelphia Orchestra
 - Huntington Theatre Company Boston

Why employ Revenue Management?

“Revenue Management ensures that companies will sell the right product to the right customer at the right time for the right price”

Robert Cross

Revenue Management in other sectors

- Revenue Management was designed to address the ‘perishability’ of the inventory
- This is the common factor in most industries where it is applied, i.e. once the show has started, you can never sell the ticket again.
 - Airlines
 - Rail
 - Hotels
 - TV Advertising

Revenue Management: some definitions

- **Revenue Management** is about optimising volume of attendance for a perishable good (in our case, the seat), as well as maximising yield
 - It therefore includes reducing prices to stimulate low demand as well as increasing prices to exploit high demand.
- **Yield Management** focuses on one half of the Revenue management equation: maximising income from those buyers who are most price inelastic.
- **Variable Pricing** describes a pricing strategy that uses a number of different prices (price metrics). These are justified by “value fences” – the reason(s) that a different price is offered (a different product, a different performance day/time, a different customer segment, a different point in the sales cycle).
- **Dynamic Pricing** refers to the adjustment of Variable Pricing over the sales cycle in response to emerging and changing patterns of consumer demand

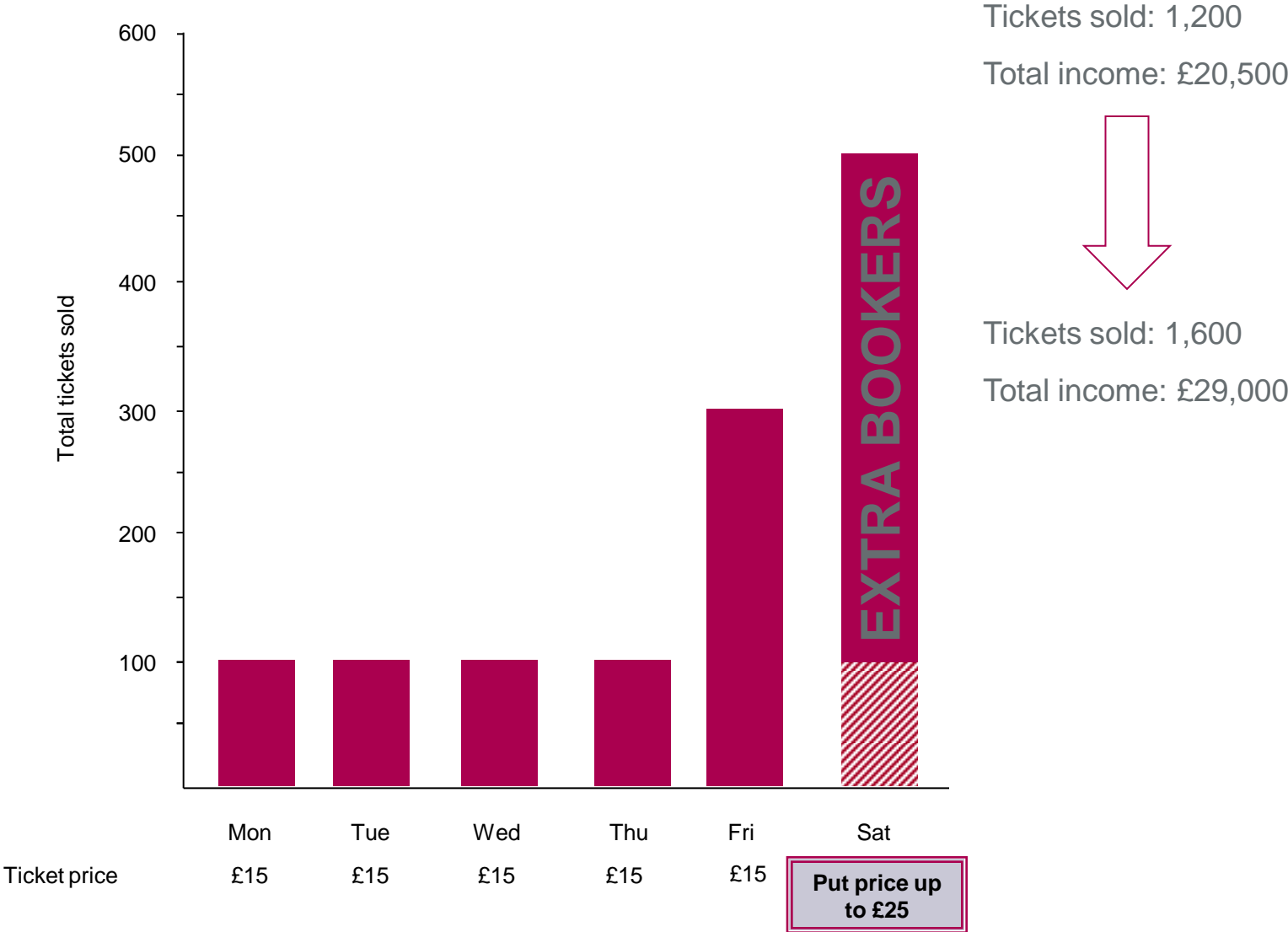
There are three key dimensions to Revenue Management

- **Static >>>>>> Dynamic**
 - The extent to which pricing can be adjusted over the sales cycle in response to changing demand.
- **Underlying >>>>>> Explicit**
 - The extent to which the differences in pricing are apparent to the customer and can therefore be effective in managing demand across the inventory.
- **Decreasing >>>>>> Increasing**
 - The extent to which [initial] face value prices are reduced or increased.

Some examples of Revenue Management tactics

- Inventory Control
- Variable Pricing by Performance
- Discount based
 - Variable discounting
 - Subscription design
 - Dynamic groups management
 - Standing subsidised discount programmes
 - ‘Early bird’
- Scaling-based
 - Variable scaling
 - Variable adjustable scaling
- Premium/On-sales
 - Value add premium
 - Leveraging on-sales
- Dynamic
 - Auction
 - Pure ‘airline-style’
 - ‘Airline’ hybrid
 - Overbooking

Revenue Management: making differences explicit

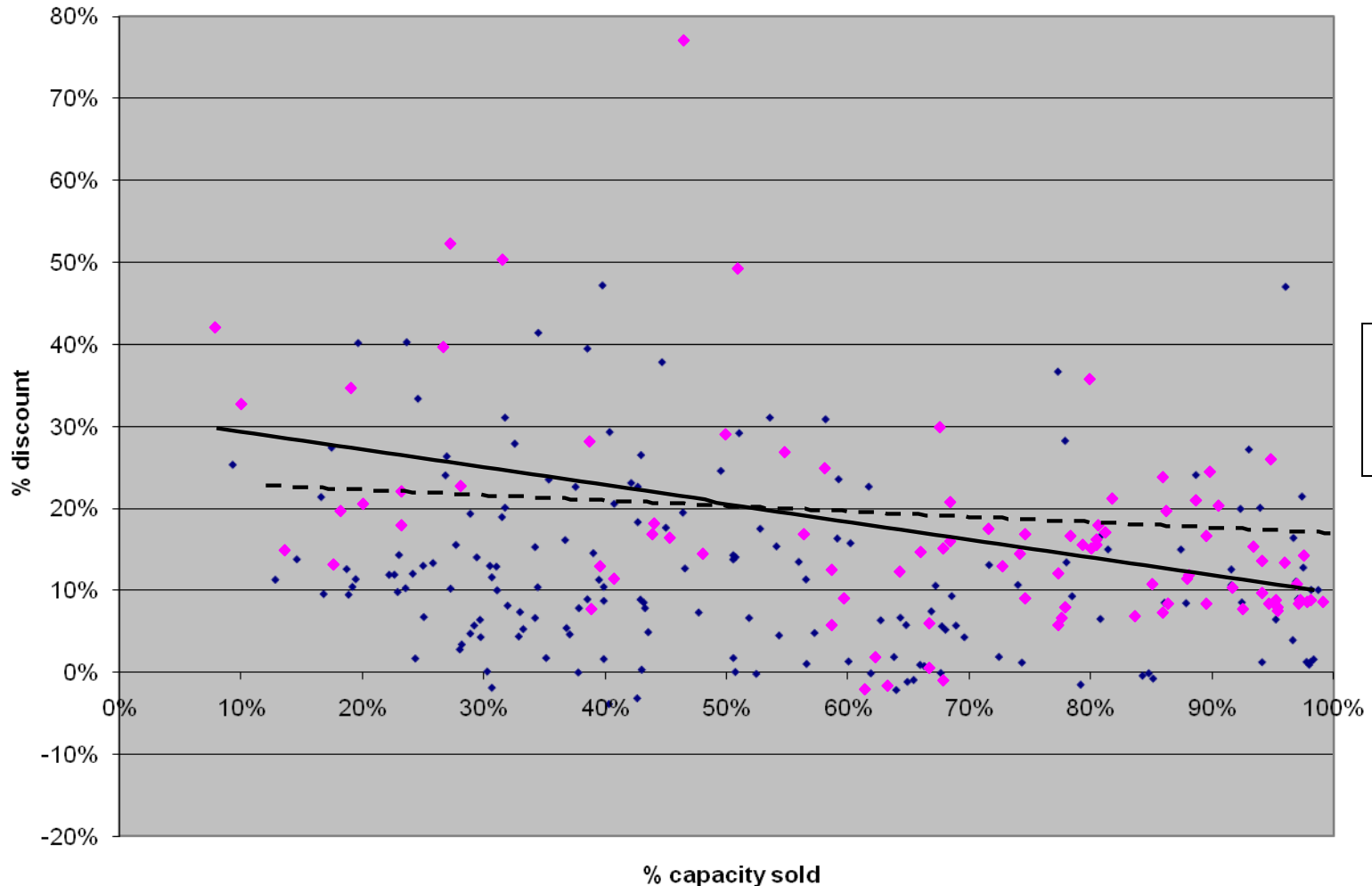


Discounting: the most dynamic form of pricing?

- Discounts can be adjusted in three ways:
 - Applicability
 - Who can get the discount
 - Availability
 - How many discounted tickets are available – controlled through quotas
 - Discount rates
- Discount availability can be adjusted:
 - By performance
 - By customer
 - By sales channel
 - Over the sales cycle
- Description of discount rates affects perceptions & income
 - Fixed lower price e.g. best available for £10 is a simple promotional message
 - Percentages allow for consistent discounts to be applied across multiple prices (e.g. for subscription) but many people don't understand them!
 - Fixed discount: £5 off £20 is 25% discount... £5 off £40 is only 12.5%
 - 2 for 1 (BOGOF) is actually just a 50% discount, 4 for 2 might actually generate more sales

Dynamic Revenue Management : discount control

- Small changes can make a big difference: £92,000 in one year



Exploiting latent price sensitive demand

- Creating a pool of price sensitive demand can be very useful for shifting 'distressed' inventory
- Standard tactics
 - Standby
 - Secondary markets
- Segmentation
 - Identify your discount junkies and feed them when you need them
- Standing subsidised discount scheme

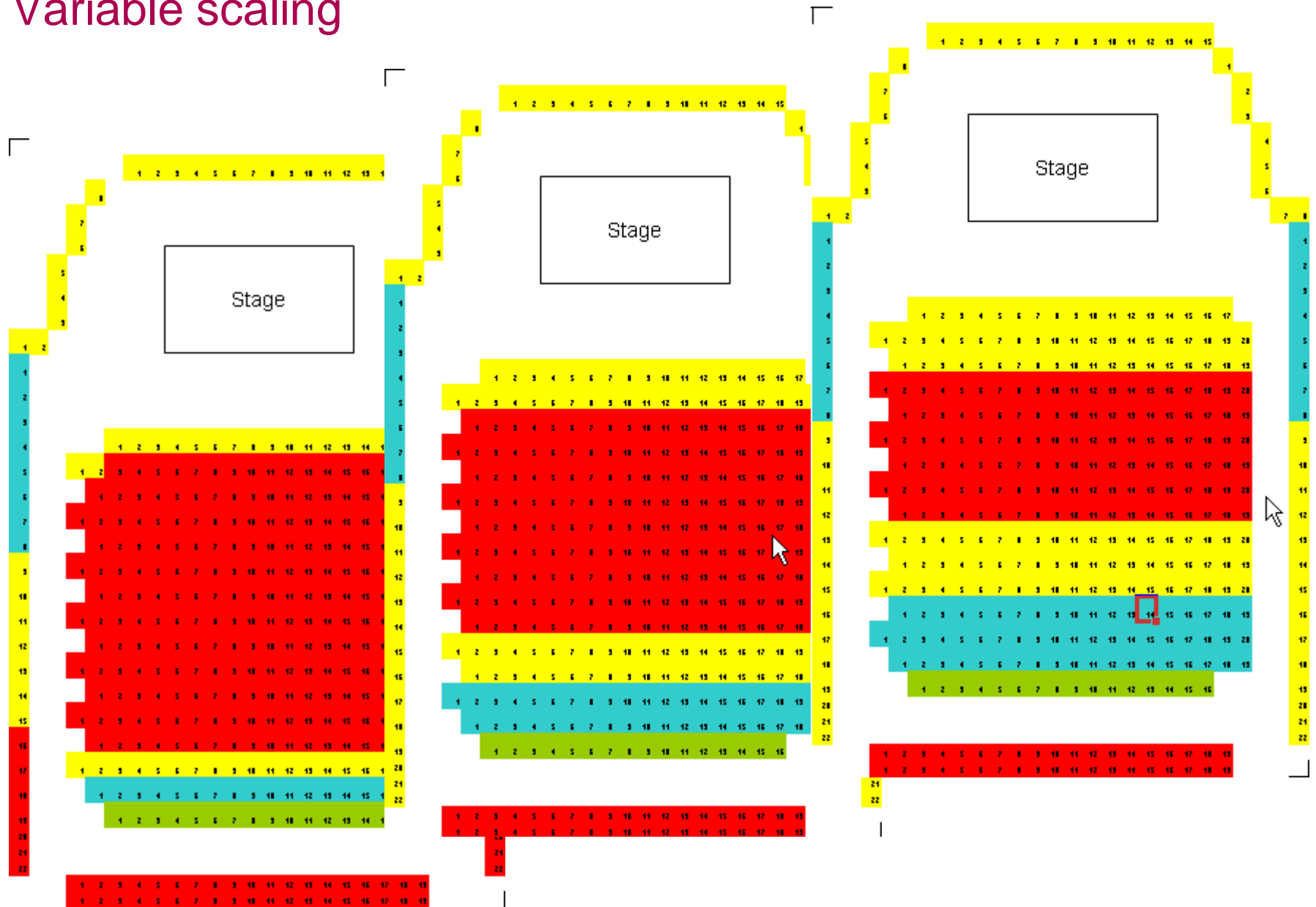


The Aditya Mittal tickets for under 25s

Dynamic discount management - some more options

- Dynamic group sales
 - Treat groups as a ‘business to business’ market
 - Negotiate prices in order to manage demand across inventory
- Transaction charges (the flip side of discounts)
 - Differentiate by event / customer / channel
 - Maximizes income from price insensitive / infrequent customers

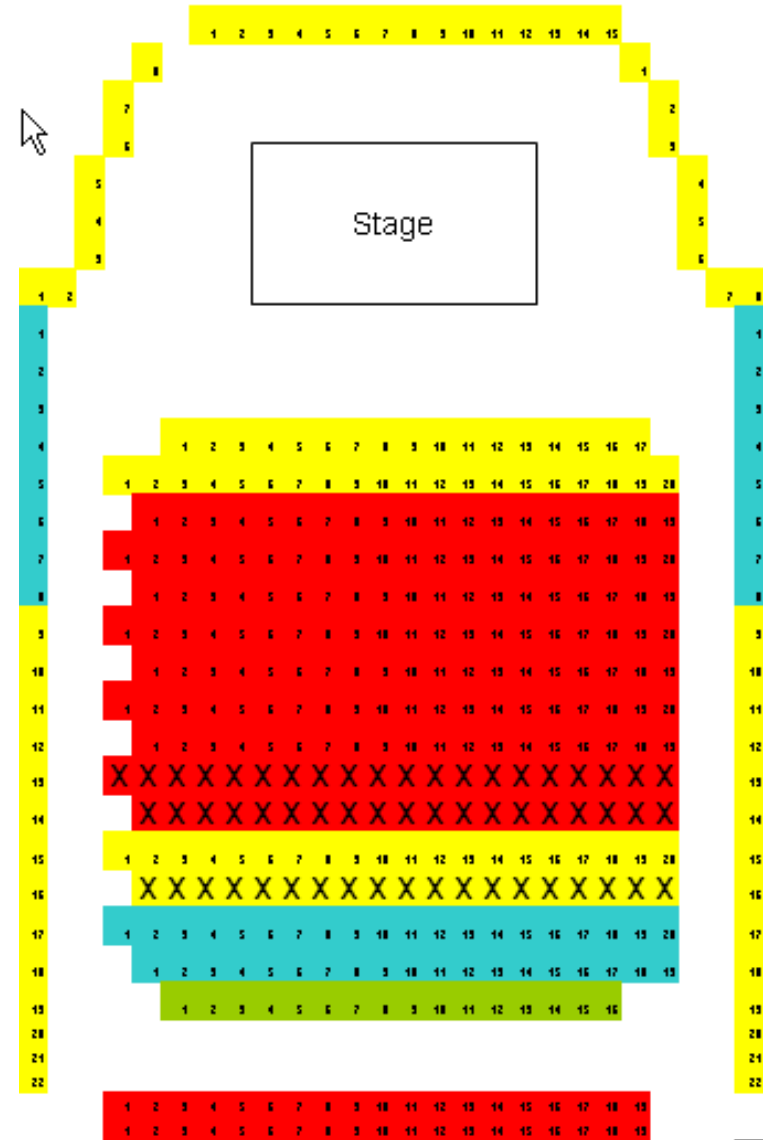
Variable scaling



Variable-adjustable scaling

Simple version...

- Scaling at 'maximal' level
- Hold off seats on the 'cusp' of each price
- Release at higher or lower price according to demand

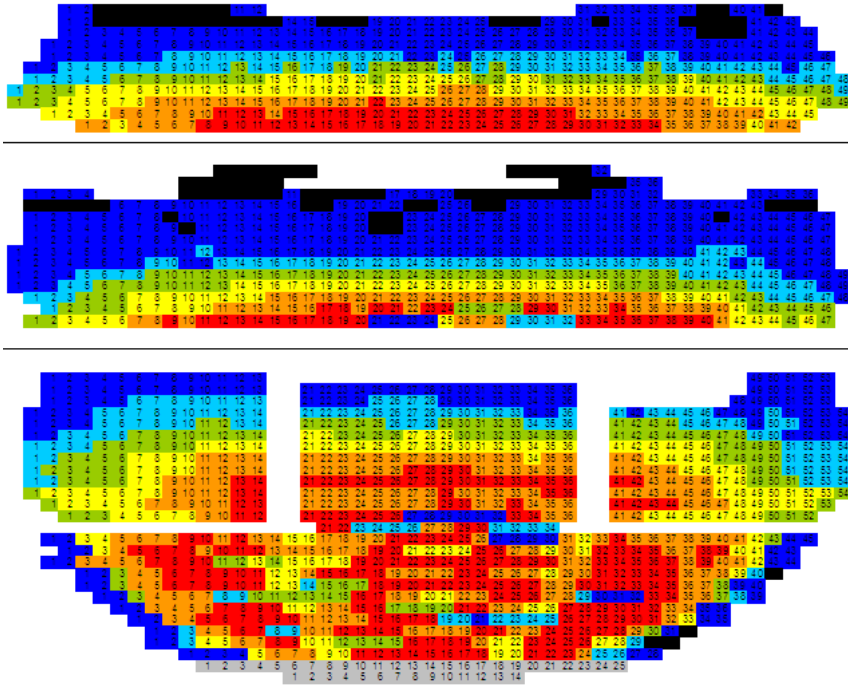


Realising the full potential of every seat you sell: premium pricing

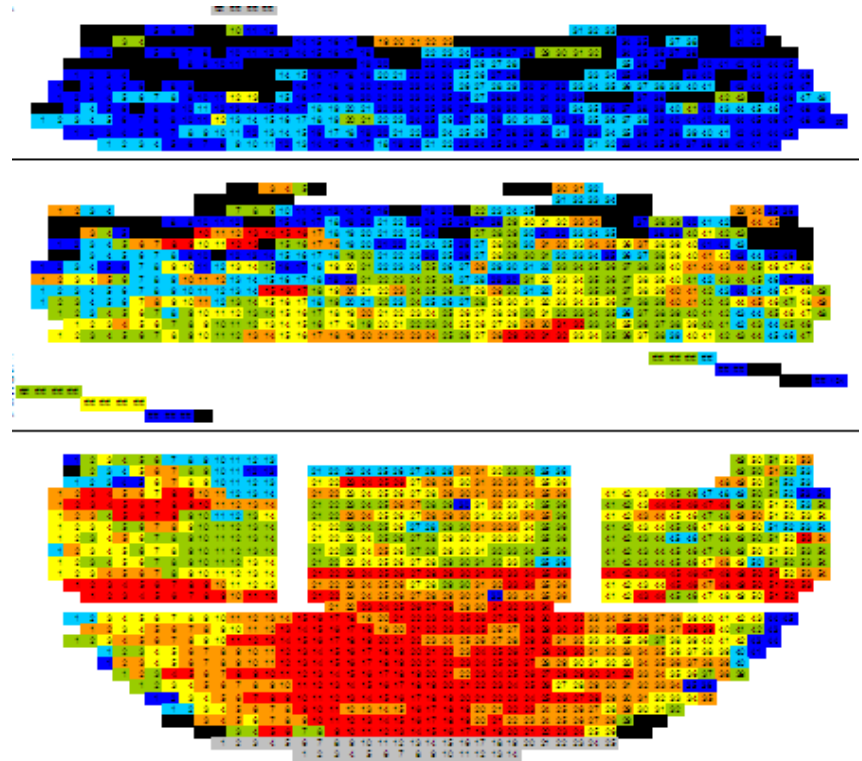
- Last minute premium
 - Hold best seats for hot shows off-sale until the last minute
 - Added value in the ability to buy in-demand seats at the last minute
- Value-add premium
 - Doesn't affect top or headline price
 - Flexible (any seat)
 - Can be either 'optional' or 'forced'
- Leveraging on-sales and donations...

Leveraging the value of your best seats: are you maximising income from all sources?

HotSeat Index™: Subscribers



Hotseat Index™: Total Donor Value



Average Total Patron Value (Tix and membership donations since 0506)

	\$18,000+
	\$9,000+
	\$6,500+
	\$4,500+
	\$2,500+
	Less than \$2,500

Dynamic pricing

- Auctions: the most truly dynamic pricing
 - Over-coming the PR problem
 - The only way to beat the secondary market
 - The most effective measurement of price elasticity
 - Or is it? The impact of competitive irrationality...
- Dynamic price management
 - All published prices are effectively ‘early bird’ rates which may or may not increase (or decrease)
 - Monitor sales and when volume is above or below forecast, adjust prices accordingly

Dynamic pricing presentation

TICKET INFORMATION		PRICES DO NOT INCLUDE APPLICABLE TAX		
All listed prices are up to 25% less than in-season prices and are guaranteed until January 31, 2010				
Performance Type	Price Code on Calendar	PRICES STARTING FROM		
		A+ Seats	A Seats	B Seats
Musical Price Range 1	M1	\$76	\$66	ALL B SEATS \$50 all of the time
Musical Price Range 2	M2	\$96	\$86	
Musical Price Range 3	M3	\$106	\$96	
Play Price Range 1	P1	\$65	\$55	
Play Price Range 2	P2	\$85	\$75	
Play Price Range 3	P3	\$95	\$85	
Studio	SD	\$70	\$60	
Special Savings Opportunities	Price Code on Calendar	PRICES STARTING FROM		
		A+ Seats	A Seats	B Seats
Members' Bring-a-Friend Ticket Offer	Look for ▲ on the calendar	2 for 1 tickets		
Family Experience	All shows with purchase of adult ticket	\$36 for all children up to 18 years old		
Members' Musical Performance	MMP	\$50	\$50	\$35
Senior Tickets* – Musicals	SSM	\$65	\$55	\$40
Senior Tickets* – Plays	SSP	\$55	\$45	\$35
Members' Shakespeare Ticket Offer	Look for ■ on the calendar	Save 50%		
Student Tickets** – Musicals	SSM	\$29 for all seats		
Student Tickets** – Plays	SSP	\$25 for all seats		
Studio Sunday Evening	SE	\$46	\$36	\$26

*Senior pricing available to patrons 65 years of age and over. Non-seniors and non-students may attend SSM and SSP performances at the M1 or P1 prices. **To qualify for student pricing you must be a full-time student, under the age of 30, with valid student ID.

Dynamic price control: issues to consider

- In a sense, dynamic pricing acknowledges that you got the prices 'wrong' to start with.
- Changing prices is the easy bit!
 - Adjust discounting
 - Change scaling
 - Change prices
- The tricky bit is knowing when to do it, and when not to
 - If you leave it until you're 80% sold, you've missed most of the opportunity
- Forecasting and monitoring are fundamental to managing dynamic pricing...
- It's a lot of work!
 - Are you sure it's worth it....?

Pure 'airline' pricing: The Place

Ticket type	Apex	Concs	Advance	Standard	Super
Price	£5	£7	£10	£12	£15
Booking required	> 7 days	Advised	> 24 hours	Advised	No
Ticket exchange	No	No	No	Yes	Yes
Refunds	No	No	No	No	Yes
Kids half price	No	No	Yes	Yes	Yes

Airline hybrid model: Kings Place

The screenshot shows the Kings Place website interface. At the top, there is a navigation menu with links for music, visual arts, spoken word, food & drink, your visit, about kings place, conference & events, media room, and contact. There are also buttons for login/register and book tickets, and a search bar with a go button. A 'View Basket [£0.00]' link is visible in the top right.

The main content area features a calendar for November 2009, with a red button for 'pick your seat: BOOK NOW' and an orange button for 'saver seat: BOOK NOW'. Below the buttons, the date is Sunday 8 November, the time is 18:30, and the venue is Hall One. A note states that tickets can only be bought online up to 1 hour and 30 mins before the performance.

The concert programme includes:

- Schumann *Märchenbilder* Op. 113
- Brahms Horn Trio in Eb Op. 40
- Dvořák Quintet in G for strings and double bass Op. 77

A description of the concert follows: "Seven soloists from the Orchestra of St John's (led by Jan Peter Schmolck) in a programme of nineteenth century classics which include Schumann's *Märchenbilder* for viola and piano (composed 1851), the Brahms Horn Trio (composed 1865), and Dvořák's Quintet for strings and double bass (composed 1875)."

On the right side of the page, there is a section for 'London Chamber Music Society' with a photograph of a chamber ensemble performing.

Using Revenue Management in the arts

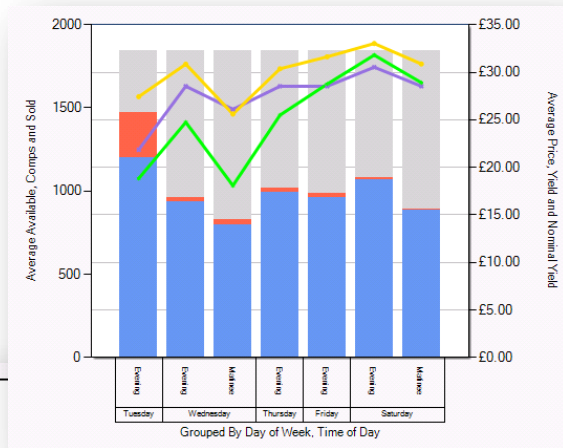
- RM outcomes
 - Maximise yield where there is high demand
 - Stimulate sales where there is low demand
 - Control discounting
 - Shift demand from high demand performances into those with low demand

We already do revenue management...

... the main opportunity is to manage it better

The Revenue Management Application (RMA)

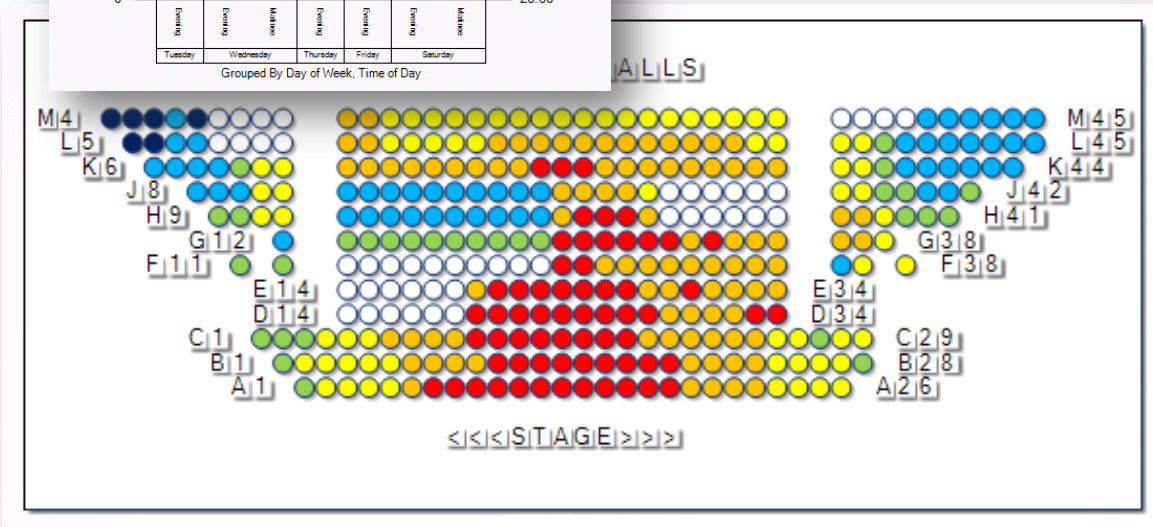
A new solution, developed with:



Jacobson Consulting Applications, Inc.



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The Revenue Management Application

- Dynamic Pricing
 - Spot opportunities for dynamic pricing early in the sales cycle, including increasing prices, adjusting inventory, restricting discounting or the need to introduce lower prices to stimulate demand
- Forecasting
 - Identify comparators and pull out key metrics for modelling
- Monitoring
 - Immediately see the impact of pricing tactics, especially dynamic pricing, and identify need for further adjustments
- Evaluate the effectiveness of changes to pricing
 - What effect did changes to price have on sales and income? How did customers react to re-scaling?
- Planning
 - Identify long term trends and the need for adjustments to strategy
 - Use the analysis tool for planning changes to prices, price scheduling, scaling and discounting
- Quick and easy sales reporting
 - Undertake simple reporting for season or show post-mortems, reporting to producers, etc.

Any questions?

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Find us on 



The screenshot shows the homepage of the Pricing Institute website. The header features the logo 'THE PRICING INSTITUTE PRICING INSIGHT FOR THE ARTS' and the tagline 'www.thinkaboutpricing.com'. A search bar is located in the top right. Below the header is a navigation menu with links for Home, Contributors, Email sign up, Forum, RSS Feed, and Contact a Pricing Institute partner. The main content area is titled 'Why think about pricing?' and contains several paragraphs of text. On the left side, there is a sidebar with a list of articles, including 'Looking for Price Study', 'Using Van Westendorp Price Sensitivity Meter', 'Restaurant Menu Pricing', and 'Book Review'. The footer contains links for 'About Us', 'The Pricing Institute', 'Baker-Richards', and 'Contact Us'.

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