Pricing	Pricing Pricing is one of the crucial issues of marketing the arts. This toolkit looks at the key considerations relating to pricing, and offers some tips and techniques for getting the most through your Box Office by using market intelligence to help you set prices **Nothing is intrinsically valuable; the value of everything is attributed to it, assigned to it from outside the thing itself, by people" John Barth, The Floating Opera, 1956**

Pricing – why is it important?

Pricing is a crucial consideration in the marketing mix of anything we have to sell. It is, after all one of the four Ps (along with product, place and promotion). Too often in the arts we seem not to give pricing the same consideration as we give to the other Ps.

So why should we pay more attention? Because it is probably the single most important marketing decision we make; it determines how much income we will generate, and affects the volume of sales we achieve.

Economists tend to look at price in terms only of demand and supply; if there is a lot of something available in the open market place, its price will be low, and if there is only a little of it, its price will be high. This is too simple a picture for practical marketing purposes. For example, we put a huge amount of effort into illustrating the 'unique selling points' of what we have to sell, in order to make it attractive, and give a sense that 'there is only a little of it' as one of the ways of 'assigning value'.

At the same time, in the arts, we use pricing not to maximise income, but to maximise audiences. We generally regard this as ensuring that there are low prices to enable particular groups of people to attend; young people, older people on fixed incomes, people who are entitled to benefits.

This creates some tensions in how we price our events. Do we aim to

- Maximise our income by setting prices which are as much as we think people are prepared to pay
- Maximise attendances by setting prices which are as low as we can manage and just cover our costs

And do we know whether either of these strategies really work? Do we know we are near the upper limit of what people are prepared to pay? Do we know that the people who are taking advantage of low prices could genuinely not pay more?

The answer, much of the time, is that we do not know the answers to these questions. We hear anecdotes – that the 'come for £1 if you haven't been before' schemes are often exploited by people who have been before and found sneaky ways of booking. But we often lack good quality market intelligence about how potential customers consider price.

As a senior marketer in the sector once said "I don't understand why we think people will only pay £5 for an arts event, when we know they'll pay £2 for a beer, £20 to watch football and £60 for a pair of trainers"

Price and 'Elasticity of Demand'	**Customer Attitudes**
Demand for any product or service will change according to how it is priced, even if no other aspect of the marketing mix is altered. This is known as 'price elasticity of demand'. Some goods and services are more sensitive to price than others. Where there are many suppliers and not much difference between one supplier and another, a supplier raising their prices will see his sales drop as people purchase from an alternative supplier at a lower price. Many goods and services are, however, **inelastic**, which means that demand is not significantly reduced by raising prices. This tends to occur where there are fewer suppliers, and where there is difference or distinctiveness between products. Where demand is **inelastic** suppliers have more **choices** available to them about how they price their goods (which is not necessarily to say that they will charge the highest price possible). In the arts sector, we sometimes presume that demand has high price elasticity – that is if we raise prices by only a small amount, there will be a significant drop in the volume of sales, and that the overall income will decrease. What we lack is good information about whether this is truly the case. We are sometimes sensitive to raising prices even in line with inflation, and we therefore inflict on ourselves a 'real terms' cut in income every year unless we can compensate by increasing sales volume.	Everything is worth what its purchaser will pay for it." Pubilius Syrus, 1st century BC Customer attitudes to price are complex and individualistic, but are based around perceived **benefits and value.** The more important or desirable the **benefits** the more the consumer will be prepared to pay. These benefits are conceptualised as the 'value' that the customer sees in the product, so in theory, we should have prices which accurately reflect the value which a rational customer would find in the product. See the Marketing Strategy toolkit for a sample analysis of the benefits which are thought to be relevant to a particular target group. Of course, it is possible to assign multiple **benefits and values** to any event; in making these assessments we need to be sure that we are looking at the event from the potential customer's point of view, not our own. We also know that customers often see the **price** as part of the measure of quality. The reasons for this are complex, but include the rational decision that it has been priced by the **seller** to reflect its true **quality and value –** 'if it costs more, it must be better'. The converse is also true – that customers often regard a **low price** as being indicative of a **low value** product. We know the positive impact branding can have on customer perception, the perceived value of a product and what people are prepared to pay for it; but what about the converse? Skoda cars now famously win 'unbadged' driver-comparison tests against cars which cost many thousands more ..put the badge back on, and people still don't buy it (not even the people who did the testing). In the arts sector, customers are perhaps not as well informed about the true costs of what they see as they are in a supermarket. They may not be aware of the extent of any grant aid for example, or indeed if there is any at all. So they may be unaware of the **true cost** of what they are watching. Similarly, it is not easy for customers to make direct comparisons between one event and another and to say which offers better benefits or value. In any case, for

	most consumers, choices are rarely quite this rational or directly comparative. **Price, benefits and value** are tightly bound together in decision-making. This means that, for most purchasing decisions, **price** is not the deciding factor on its own. For all products and services, all of us have a **price barrier -** an amount above which we are not prepared to purchase because we do not believe that the benefits and value are equal to the price. For some people these barriers are lower than for most of us – people with lower amounts of disposable income. We know, too, that people get used to paying particular prices for particular things; and that price tends to be a more important factor in the **first** decision to purchase a product or service than it is in the purchase of **subsequent** purchases of the same or similar things.

Top Tips for Analysing Pricing

Given how complex purchasing decisions are in relation to price, it is no wonder that we find the prospect of re-organising our pricing daunting. Even marginal and inflationary increases are often the subject of intense debate.

Are we a little on the 'inelastic' side?

We tend to think of increasing income in terms of increasing sales volume – because events are rarely sold out, there is always more income potential by reaching more people. We focus on increasing frequency of attendance, and attracting new attenders – which is fine. But we can think about increasing **ticket yield** too. We tend to focus on yield only when sales volume is already high – for example the annual pantomime, the New Year concert, where we may spend considerable energy and effort to increase what is already high income, as the show is usually such a vital part of the total earned income for the year.

We also put customer understanding very high on our list of attributes for pricing structures. Where there are price variations which relate to the area of the auditorium, concessions and discounting already, how can we simplify presentation?

Cost plus is a commonly used basis for setting prices. We work out what a particular show or season is going to cost, apply any grants or subsidy we have, and price tickets to fill the gap. This is pricing with a social dimension which is often related to our own core values (personal and/ or organisational) – we may feel uncomfortable about asking people to pay more for something than we actually need to cover the **costs**, or we may want to feel that we are offering the best possible value for money.

We have the option of pricing on the basis of **market value.** Market value is pricing which is based on the **benefits and value** we think potential customers we receive from the product. Generally speaking this costing system attracts some resistance; market value would probably mean higher prices for Oscar Wilde/ Judi Dench than for a new play performed by a new young company. Not surprisingly, people object to this on the basis that the new play and the new company does not have a 'lesser value' and therefore ought not to have a lower price. The counter-argument is that whilst the intrinsic value may be the same as far as the organisation is concerned, audiences will have a different view on the **benefits and value** of the two events. In the case above, this may be related to familiarity, and an attitude to risk. Pricing using **market value** might, in any case benefit new writing; by increasing the prices of popular shows in accordance with their market value, we might bring more income into the organisation which can be invested in new writing or experimental work.

We sometimes practice a form of **commodity pricing** by using the same prices and pricing structure for all the shows or concerts in a season. Although this is clear and straightforward, it may not reflect either the true cost or the value of the shows. Again, we can vary pricing on the basis of **market value.**

We practise **discounting** widely; although the massive bulk subscriptions for entire seasons of work are now much less commonly offered than 'flexible' packages where customers pick and choose to create their own good value deal. The main benefits of subscription packages are the positive cashflow effect of having a significant proportion of our earned income in the bank early in the season, and the efficiency of marketing the season as a 'thing to buy now' rather than as 'things to buy each week'; the cost to us is the financial loss of the discount (which decreases our ticket **yield**).

Price ranges are sometimes fixed in stone, with prices in each area of the auditorium moving in parallel, or as fixed percentages of each other. We can increase **yield** by varying pricing ranges; increasing the higher prices at a slightly faster rate, which still protects **access** by maintaining low prices in some parts of the auditorium.

We can also **increase yield** by varying the pricing blocks across the auditorium. A few commercial companies are starting to embrace **airline pricing** where the price you pay for a specific seat for a specific performance will vary according to when you book it. If, for example, there are four seat prices in an auditorium (£10, £15, £20, £25), and it becomes clear that the £20 seats are the most popular on a particular Saturday, the pricing blocks will be re-shaped to make more £20 seats available on that day)

We might **increase yield** and control demand by increasing prices on popular days (say Thursday, Friday, Saturday) – which might have the added effect of increasing attendances earlier in the week.

Our **concession** policies tend to be reviewed rarely, and we do not monitor their effect. As the legendary observation from the ticket seller at a rural festival once went "She always demands her £1 off for being an OAP, and she owns half the county". We can monitor and evaluate the effectiveness of our concessions policies – are we really benefiting people who could otherwise not afford to come, or just giving people who would come a cheaper night out? Then we can target concessions more effectively at people who genuinely need them. This is known colloquially as 'Volvo Counting' – people who arrive in 4x4s don't really need a discount, do they?

Pricing Jargon

Cost plus – the practice of setting prices by working out what the costs are, adding a bit on as a contingency, to determine prices (Artists £1000, venue and publicity £500, 200 customers likely, so £9 each)
Market Value – the practice of setting prices based on the 'perceived market value' of the product – by comparing with similar products (although not necessarily in the same sector)
Commodity pricing – pricing of goods or services on the basis that they are widely available, pretty much the same, and that there are lots of suppliers in competition with each other
Premium pricing – a high price charged on the basis that the product or service is perceived to be a 'premium' one. This can be down to a star name – say a recital by Pavarotti
Differentiation – variations in product / presentation to reflect different benefits and values and therefore enable different prices to be charged (the restricted view seats at the back vs. the front stalls with a free glass of champagne in the interval)
Discounting – offering incentives to purchase by reducing the price paid in certain fixed circumstances (early bird booking, groups)

Subscription – is effectively a term for discounting, ie giving people a better deal because they buy in bulk
Ticket yield – the mean average income per seat of a particular performance or series of performances
Resistance – the price point at which consumer demand begins to fall significantly
Concessions – price reductions offered to specific groups, usually by reason of low income

Useful reference materials: **Strategic Marketing for Non-Profit Organizations** by Philip Kotler and Alan R. Andreasen Pub: Prentice Hall, London 5th edition 1996 £39.99 ISBN 0-13-232547-0 **The Marketing Manual: *making sure the message gets across*** by Heather Maitland Pub: AMA £25 [incl. p&p £33] 2000 ISBN 1 903315 02 6 All available from Sam's Books www.sam-arts.demon.co.uk	**How Much?** by Angela Galvin Pub: Sheffield Theatres Trust £10.00 2000 ISBN 0-9538314-0-x The *How Much?* Project aimed to test how the mix of programming, price and promotion influences young people's attendance of Sheffield Theatres. **Standing Room Only - *Strategies for Marketing the Performing Arts*** by Philip Kotler and Joanne Scheff Pub: Harvard Business School Press 1997 £34.99 ISBN 0875847374 When the AMA Conference audience was asked to put their hands up if they'd got a copy of this one, a forest of hands were raised. Probably "the" seminal text on its subject. **Pricing audit for Venues in the East Midlands** Summary of a Report for ACE: EM by Tim Baker Associates

Low cost and time	Medium cost and time	Resource Intensive
Don’t rely on ‘cost plus’ as a way of setting prices. Look at the **benefits and value** you are offering customers. Can you set different prices for different events according to how attractive you think they are to audiences? Look again at the prices you charge for different seats. Can you make some alterations to the way blocks of seating are priced which can increase income? Look for ways you can increase the value of some seats, to offer a ‘premium’ product. This might be the very best seats, invitations to receptions, refreshments etc.	Review your concessions, access and discounting policies. Are the beneficiaries genuinely people who could not afford to pay the normal price? You can do this by using Box Office data, or by ‘volvo counting’ Use the potential benefits and target audiences for a campaign (see the toolkit on Marketing Strategy) as information to help you make pricing decisions. What at the benefits worth? Experiment with a single event; no complex seating plans, discounting policies, just Seats £8 - £25. Then monitor the effect on Box Office staff and bookings on a daily basis. Pricing blocks can be varied according to how bookings are going **(airline).** If there is **resistance** at the highest price, vary downwards. Box Office staff may need additional support to work in a new way Use your Box Office system to report on sales by price; you can start to measure which prices sell quickly, and when, and to whom; do regulars, occasionals or new visitors buy most top price tickets? Are lower priced seats more likely to be sold at the last minute?	Do a thorough survey of the price elasticity of demand of your products and services. This will mean three separate tasks; 1. analysis of historical data 2. survey research 3. experiments / small-scale testing Try experiments on the basis of **scheduling –** higher prices on popular nights, lower prices on less popular nights. Review the pricing blocks for the entire auditorium. Go and sit in every seat and rate it for sightline, acoustics, comfort. Then think about your price blocking