

# Pricing policy

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# Objectives

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- ▶ Maximising revenues
- ▶ Maximising audience
- ▶ Maximising quality



# Yield or revenue management

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- ▶ Yield or revenue management: To maximize the yield by selling a service or product to the right customer at the right time for the right price. In aviation, this is done by charging groups such as business travelers and tourists different prices (on a Saturday night stay - not popular with business travelers - leads to lower prices) and flexible prices. The quantity of goods or services (capacity) can be variable.
- ▶ In the theater yield management is applied by last minute discount for students, the use of child discount (groups), discounts in advance (flexible price) and if possible to place a performance at high demand in a bigger hall (capacity).



# Continuation

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- Ticket price must be lower than reference price
  - IRP visitors are sensible for benefit
  - ERP visitors are sensible for disadvantages

determinant	Influence on willingness to pay
Popularity genre	+
Size production	+
International reputation	+
Degree of renewal	+
Decor, visual effects	+
Scarcity	+
Durance of performance	+
In house production	+
Well known/relation to artist	+
Well known producer	+
Well known director, playwright, composer	+
Image theater	+
price differentiation	+
capacity theater	+
location theater	+
Private/subsidised theater	+
quantity of free publicity	+
Tv programmes/critics/brochures	+



# Incidental versus frequent visitors

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	Frequent visitors	Incidental visitor
theater	No substitute	(many) substitutes
reservation	more tickets at the same time	some tickets
motive	'they have to see it'	fun
objective	cultural need	social contacts
price	<b>Important</b>	<b>Less important</b>
reference price	based on the past	based on objective consumption
period	for one season	once

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# Price discrimination

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- Price discrimination (3 levels): Calculating a different price for the same service or product. This may be 1) to an individual (negotiate the price of a car), 2) giving volume discounts or 3) charging lower prices to children, students or seniors.
- Price discrimination in the theater is used as part of yield management (to increase yield) or for policy objectives such as reaching young people.



# Reference price

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- Own experience (internal reference price)
  - Previous purchase
  - High frequency, go for the arts, no experience with substitution goods, price sensible
  - Memory related





# Continuation

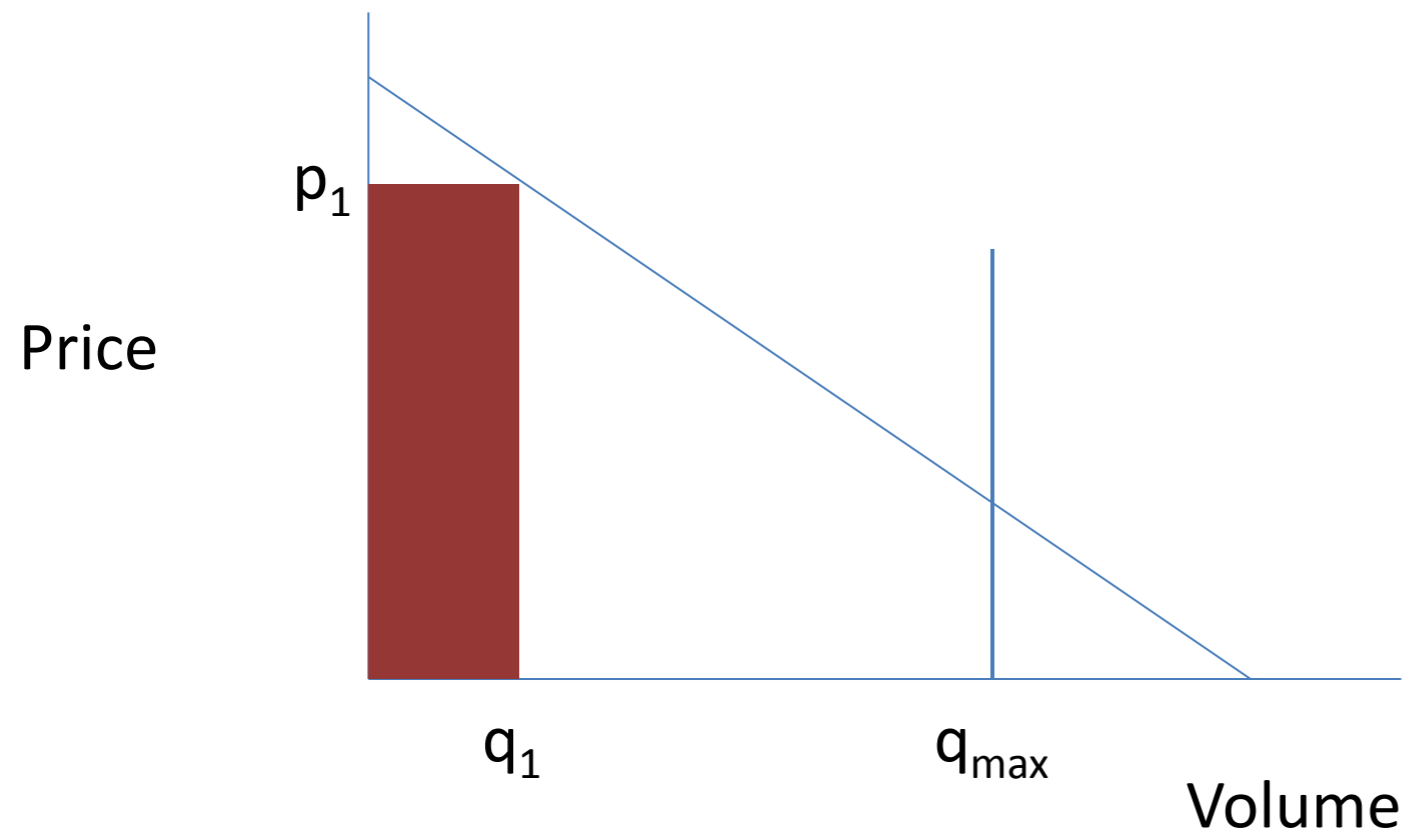
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- External experience (external reference price)
  - Price other brands
  - Substitution goods
  - Advertised prices
  - Stimulus related
  - Low frequency, like to go out, compare substitution goods, not price sensible



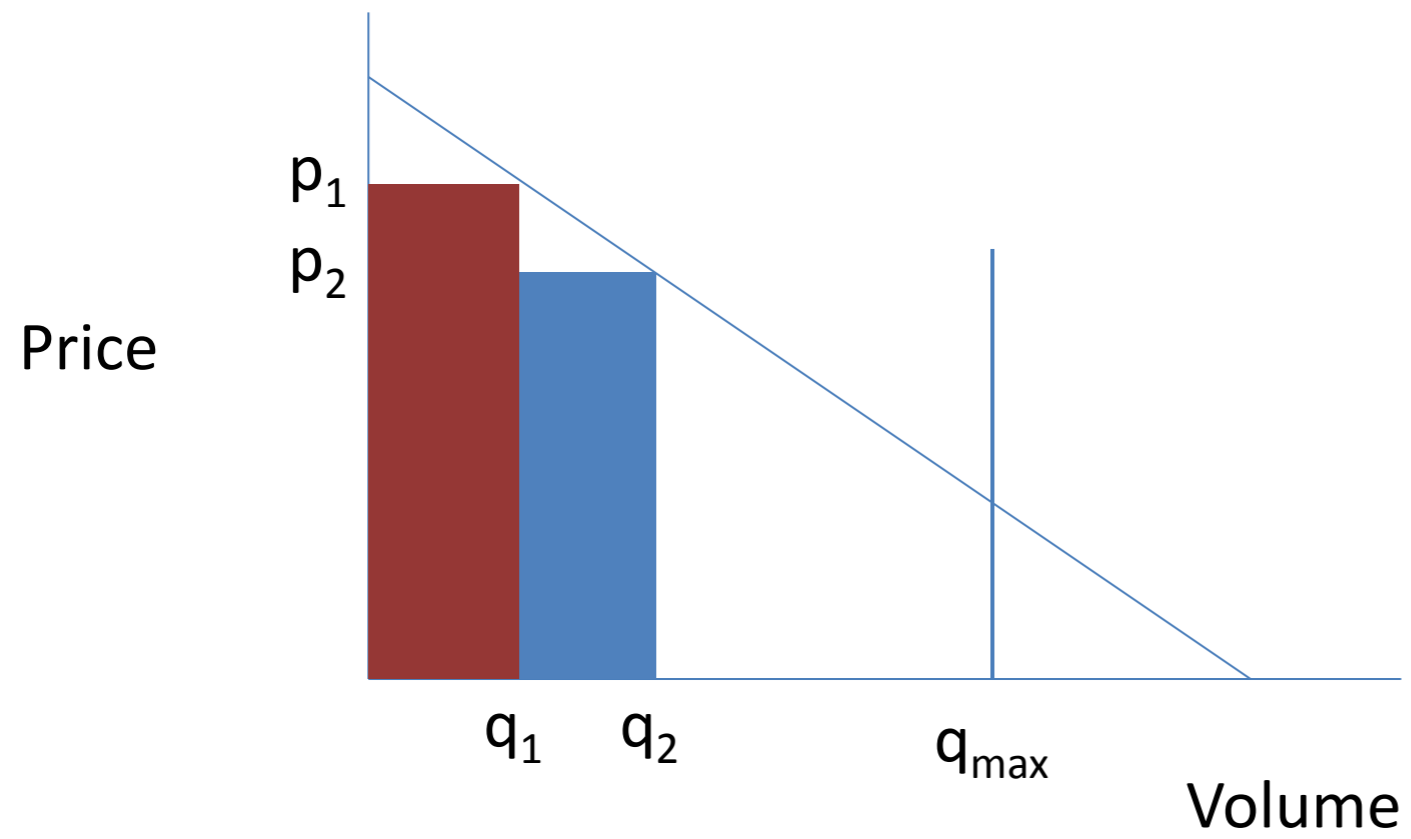
# Static one price

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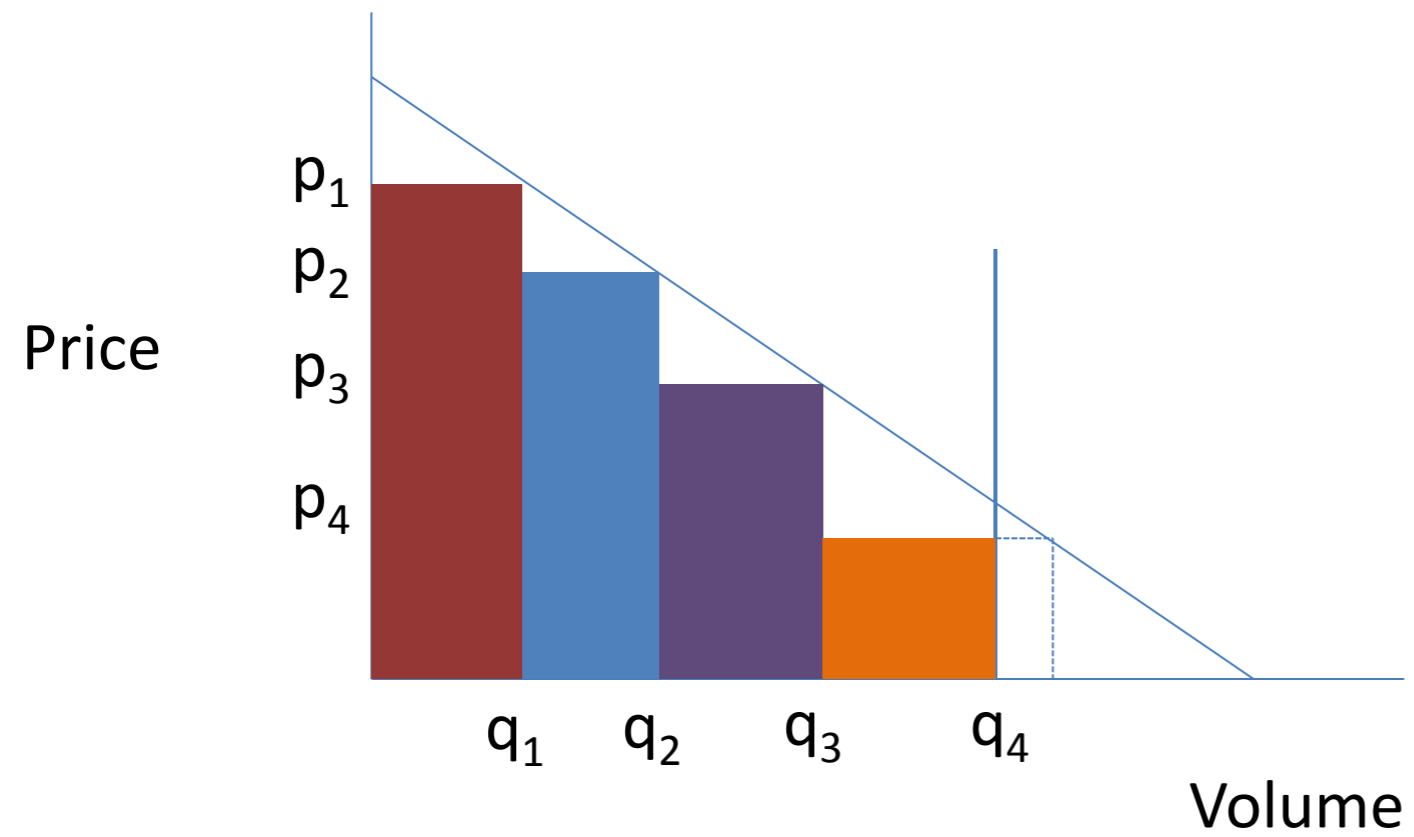
# Static two prices

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# Static multiple prices

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# Dynamic pricing

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A refinement of yield management made possible by technological developments. The price responds very quickly - sometimes in real time - on changes in demand, market forecasts, analysis of customer databases and reactions of competitors. The capacity is usually not variable.



# Dynamic pricing

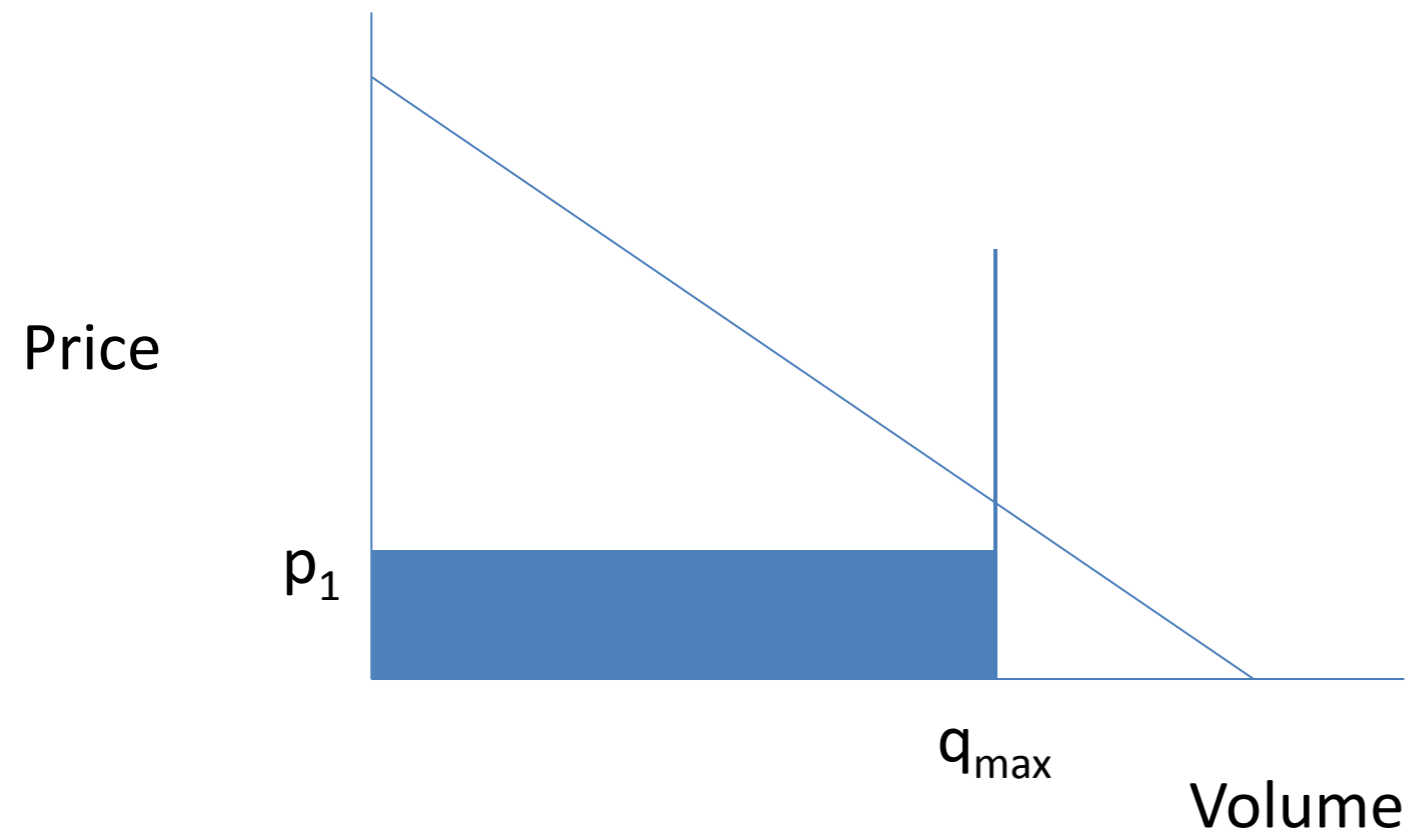
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- ▶ Prices go up with increasing scarcity
- ▶ Prices go up with increasing necessity
- ▶ Relatively small variance in prices in the performing arts



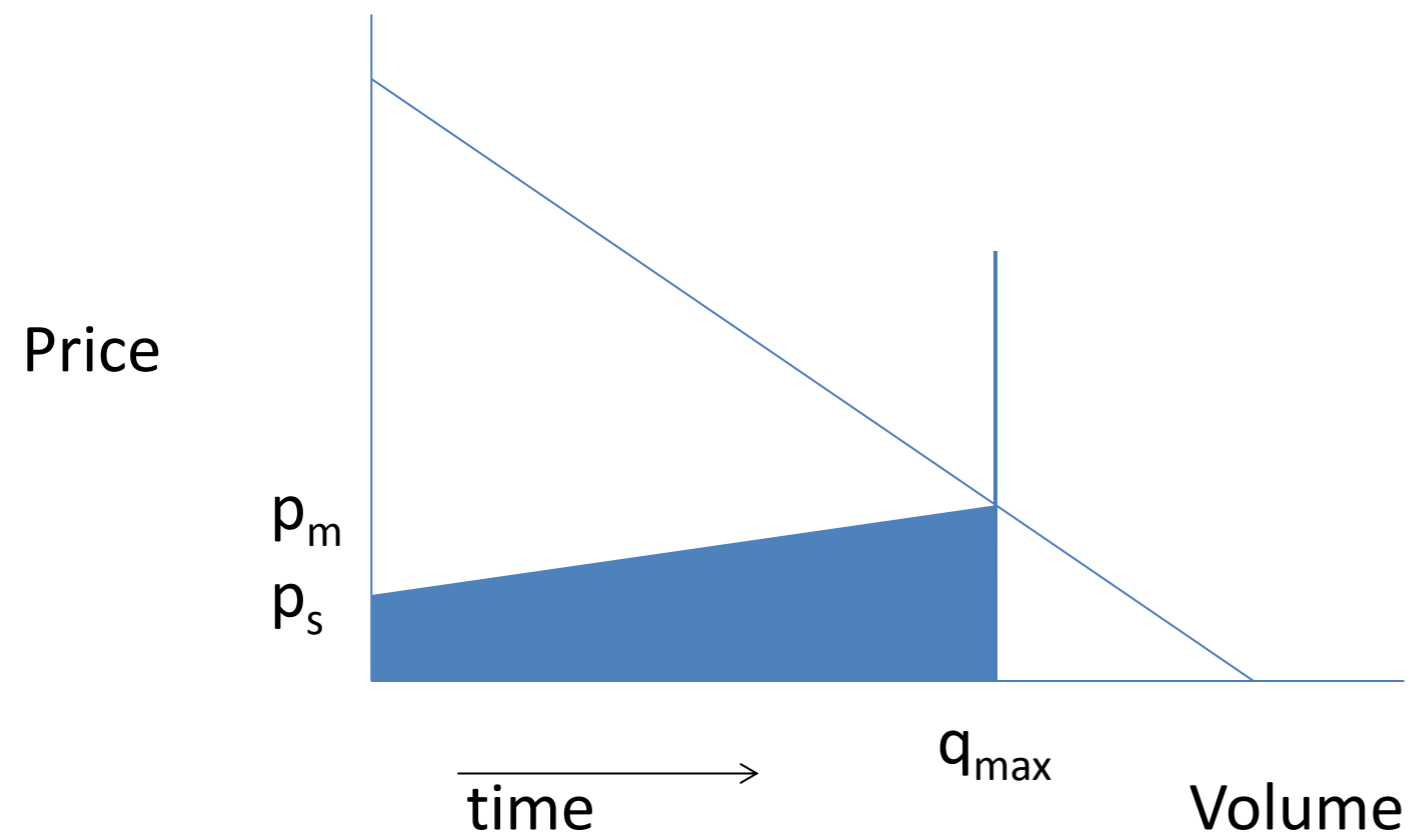
# Static one price

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# Dynamic one price

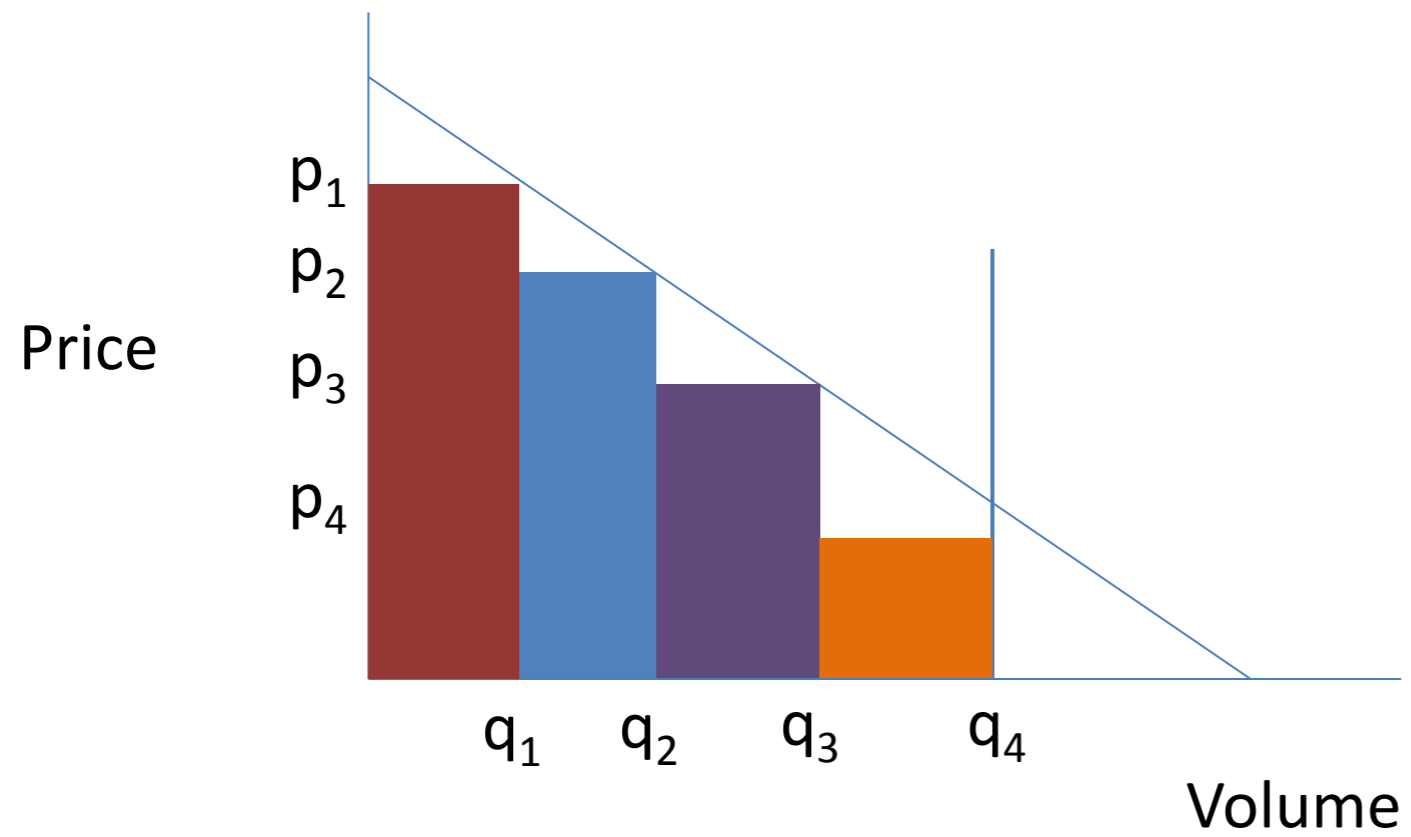
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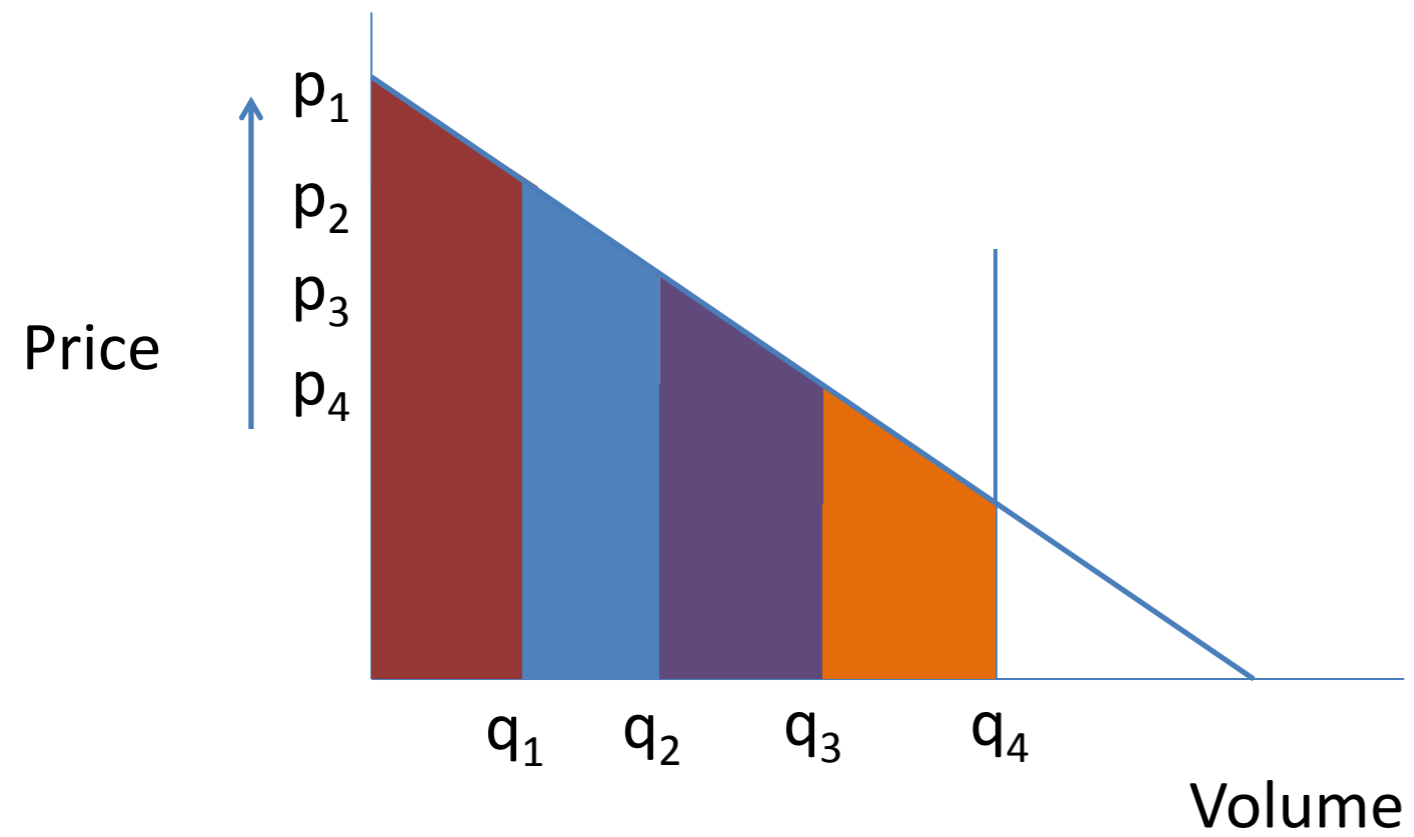
# Static multiple prices

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# Dynamic multiple prices

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# Research on price differentiation

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- ▶ Huntington (1993)
- ▶ British Art Council (1987)
- ▶ Stooker (2012)
- ▶ Price differentiation leads to higher income
- ▶ Price differentiation leads to more visitors
- ▶ Price differentiation leads to different visitors

Huntington, P.A. (1993). Ticket pricing policy and box office revenue. *Journal of Cultural Economics*, 17(1), 71-78. Doi: 10.1007/BF00820768.

Stooker, C. (2012). What a difference a Range makes. A thesis on the possibilities of price differentiation for the Dutch Performing arts sector. (Masterthesis) Erasmus University, Rotterdam. Erasmus School of History, Culture. and Communication.

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- ▶ Price differentiation is applicable for sold out and for not sold out performances
  - ▶ For advanced sold out performances differentiation upward
  - ▶ (golden seat)
  - ▶ Enhance range of prices, every consumer can maximise his utility
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grondslagen van de Europese beschaving,  
van Genesis 1 tot de hedendaagse populaire  
cultuur. Met zijn zeer weelderige esthetiek  
is de Societas al jaren een welkome gast  
op de belangrijkste internationale festivals  
en podia en in het bezit van een lange lijst  
onderscheidingen.

regie: Chiara Guidi ~ muziek: Scott Gibbons ~  
video-animatie: Magda Guidi, Sergio Gutierrez,  
Andrea Petrucci

za 13 mrt, 20.30 – Finntaxzaal  
€ 14/21/25/28/32/35 [+ € 2,30 servicetoeslag]

- \* INTERNATIONALE NAZIT (p. 23)
- \* BONUSVOORSTELLING (p. 45)

CHASSÉ THEATER



INTERNATIONALE  
SELECTIE



die in New York ook een bestaand.  
Uiteraard kan een kerk niet zonder  
voorganger: Tony Neef vertolkt  
op hilarische wijze de rol van de  
dominee.

[www.stardusttheatre.com](http://www.stardusttheatre.com)

**MUSICAL**

20.15 uur

prijs 1STE RANG € 56,50

2DE RANG € 52,50

Bij binnenkomst waant u zich al  
direct in een warenhuis en  
ontvangt u een royaal gevulde  
goodie bag.





# Dance of vampires, antwerp

Category 1	€ 54,00
Category 2	€ 44,00
Category 3	€ 34,00
Category 4	€ 24,00
Golden Seat	€ 64,00
Dinner Seats	€ 89,00
Weekend additional	€ 5,00



	Cat 1	Cat 2	Cat 3	Cat 4	Cat 5
Age	Young	Middle aged	66% 50+	67% 50+	90% 50+
education	HBO	HBO	HBO	HBO	HBO
Income	20-30 k	30-40 k	30-40 k	30-40 k	70-90 k
Frequency/ year	4-10	1-3	4-10	4-10	4-10
Gender	Woman	Woman/man	Woman/man	Woman/man	Woman/man
Civil status	Single	Married	Married	Married	Married

▶ Source: Elise Vandenberghe (2011)



# Motivation

Category 1	Category 5
Enjoy attending performing arts	Very strong theater lovers
Influenced by media, friends	Know what to visit
Go for intellectual enrichment	Go for the piece
Want to meet other people	Do not want to meet other people
Want to be identified as theater lover	Want to be identified as theater lover



# Conclusion price differentiation

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- ▶ Visitors strive for optimal utility
- ▶ At every price the demand curve has a certain demand
- ▶ The more differentiation, the more revenues and the more and different visitors
- ▶ At large differences in price, there should be an understandable reason why one seat is more expensive than an other.



# overview

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Price discrimination	Price differentiation	Product differentiation
Price reduction for:	Ranks	VIP-service
Students	Time	Meet & Greet
Elderly		Dinner
Unemployed		Program booklet
Groups		Cancelation regulations
Own employees		Valet parking

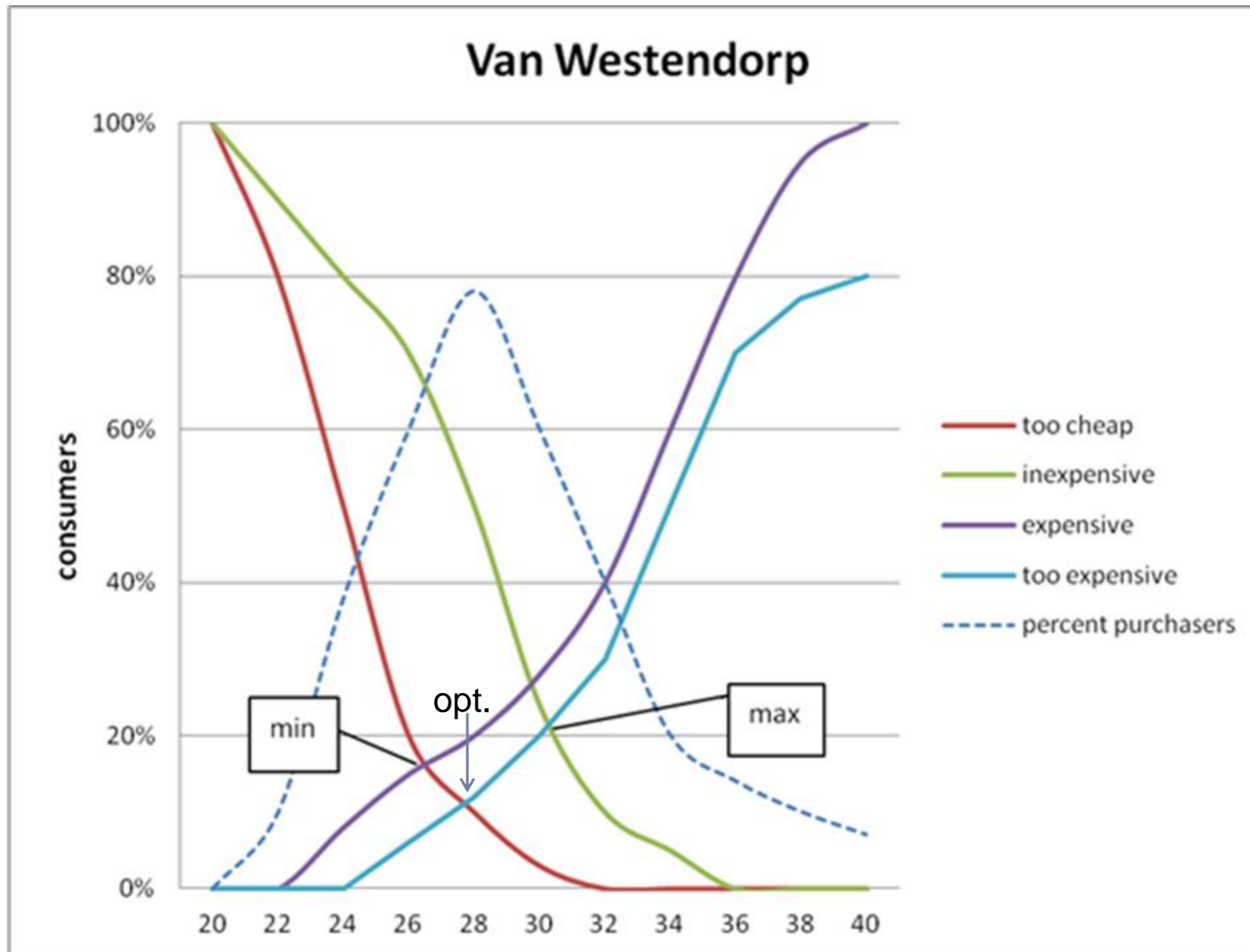


# Van Westendorp Price Sensitivity Model

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- ▶ At what price would you consider the product to be so expensive that you would not consider buying it? (Too expensive)
- ▶ At what price would you consider the product to be priced so low that you would feel the quality couldn't be very good? (Too cheap)
- ▶ At what price would you consider the product starting to get expensive, so that it is not out of the question, but you would have to give some thought to buying it? (Expensive, high side).
- ▶ At what price would you consider the product to be a bargain – a great buy for the money) (Cheap/good value)

# Van Westendorp Price Sensitivity Model



# Inclusive prices or not?

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## Low cost carriers

- ▶ Flight
- ▶ Tax
- ▶ Fuel charge
- ▶ Seat reservation
- ▶ Luggage charge
- ▶ Reservation costs
- ▶ Cancellation insurance



# Aspects

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- ▶ Annoying or not?
- ▶ To certain level acceptable?
- ▶ Attracts more audience



# Other topics

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- ▶ Non-price rationing: when you charge lower prices than the equilibrium price of supply and demand
- ▶ Consumersurplus: difference in between the maximum price a consumer is willing to and the actual price they pay
- ▶ Product differentiation: Varying a product so a different price may be requested. In the theater, for example, a ticket including a separate cloakroom and personal service in the break. Possibly a meet and greet with the soloists or stars, cancellation possibilities, a program booklet, valet parking, dinner and reception.





A photograph of Starbucks coffee cups on a counter. In the foreground, there is a clear plastic cup with a green lid and a green straw, containing an iced coffee beverage with a brown sauce drizzle. Behind it is a brown paper Starbucks cup with the Starbucks logo. The background is slightly blurred, showing what appears to be a Starbucks store interior.

# Product differentiation

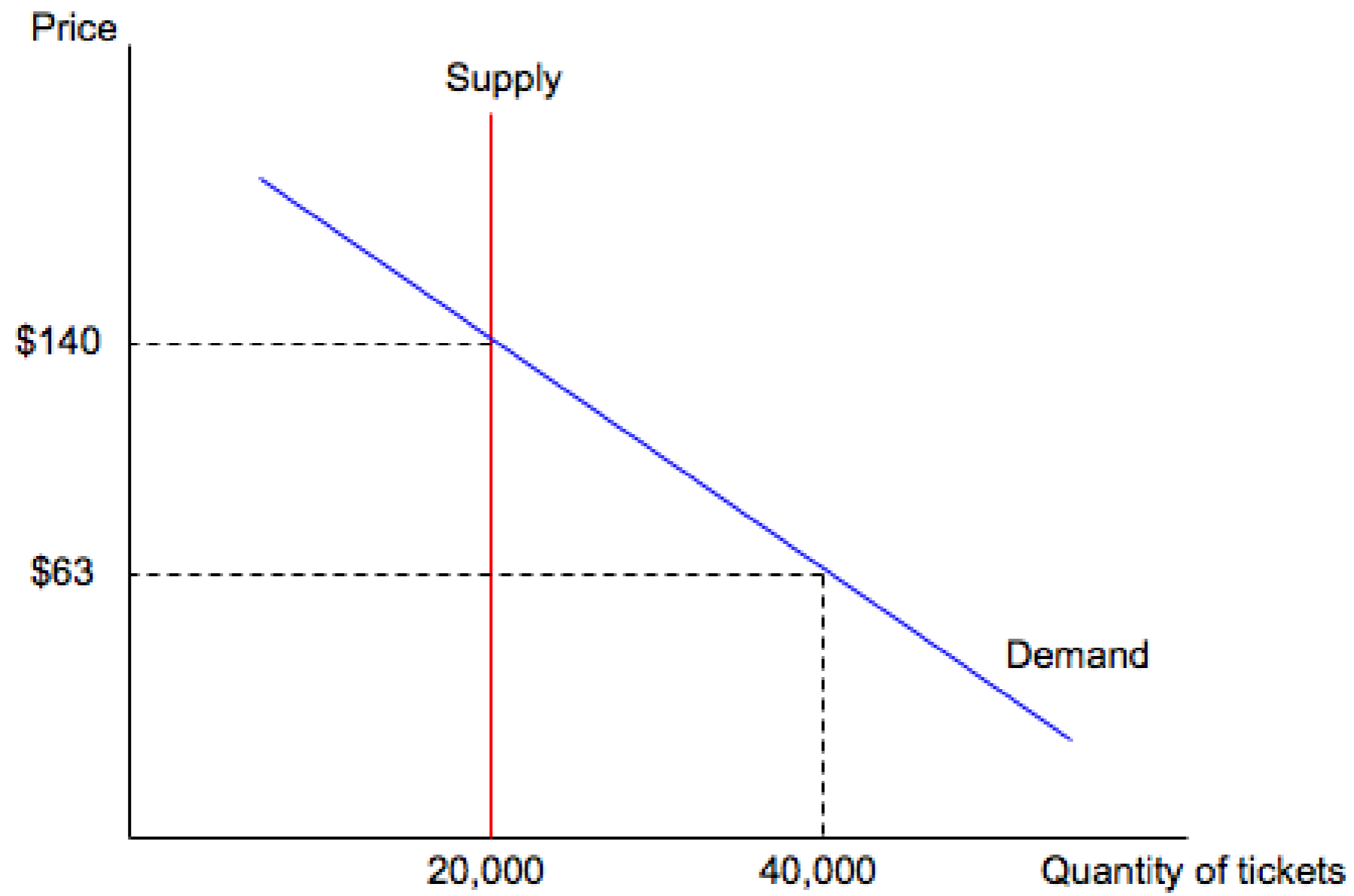
Caffè Americano, Caffè Latte, Caffè Mocha, Cappuccino, Caramel Macchiato, Espresso, Espresso Con Panna, Espresso Macchiato, Latte met smaakje, Iced Caffè Americano, Iced Caffè Latte, Iced Caffè Mocha, Iced Caramel Macchiato, Iced Latte met smaakje, Iced Skinny Latte met smaakje, Skinny Latte met smaakje, Caffè Misto, Iced Coffee met melk, Pike Place™ Roast, Chocoladedranken, Hot Chocolate Classic, Starbucks® Signature Hot Chocolate, White Hot Chocolate, Frappuccino® Blended Coffee, Coffee Frappuccino® Blended Beverage, Coffee Frappuccino® Light Blended Beverage, Espresso Frappuccino® Blended Coffee, Espresso Frappuccino® Light Blended Coffee, Mocha Frappuccino® Blended Coffee, Mocha Light Frappuccino® Blended Beverage, Frappuccino® Blended Crème', Strawberries & Crème Frappuccino® Blended Crème, Chai Crème Frappuccino® Blended Beverage, Caramel Frappuccino® Light Blended Beverage, Caramel Frappuccino® Blended Beverage

prices: 2,25 – 7 euro



# Non-price rationing

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# Other research

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- ▶ Christine Petr: From early booking reward (pre commitment) to post reward programs
- ▶ Felton: subscribers are more price sensitive than single ticket buyers
- ▶ Adams threshold prices: low income have low minimum and low maximum utility of consuming performing arts
- ▶ Huntington: the cheapest tickets are sold less than expected
- ▶ McCain: implicit contract

Felton, M.V. (1989). Major influences on the demand for opera tickets. *Journal of Cultural Economics*, 13(1), 53-64. Doi: 10.1007/BF00219713.

Felton, M.V. (1992). On the assumed inelasticity of demand for the performing arts. *Journal of cultural economics*, 16(1), 1-12. Doi: 10.1007/BF02275973.

Huntington, P.A. (1993). Ticket pricing policy and box office revenue. *Journal of Cultural Economics*, 17(1), 71-78. Doi: 10.1007/BF00820768.

McCain, R.A. (1987). Scalping: optimal contingent pricing of performances in the arts and sports. *Journal of Cultural Economics*, 11(1), 1-22. Doi: 10.1007/BF00148069.

Petr, C. (2007). Why occasional theatregoers in France do not become subscribers. *International Journal of Arts Management*, 9(2), 52

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MIJN CHASSÉ  
THEATER  
CINEMA  
ETEN/DRINKEN  
ZAKELIJK

CULTUURFREAK  
JEUGD  
SERVICES  
ALGEMEEN  
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terug - [tariefkeuze & services](#) - winkelmandje

## tariefkeuze & services



[klassieke muziek](#)

do 15 sep 2011 - 20:30

[De Favorieten Het Brabants Orkest](#)

Uw huidig saldo koperen keesen is: 25

Voor de zaalplattegrond in pdf klik hier

Kies hier welke rang u wilt zitten.

2 X 1e rang

- |   |   |         |                                  |  |
|---|---|---------|----------------------------------|--|
| 1 | X | normaal | <input checked="" type="radio"/> | € 33,30 (Vriend 2011-2012)               |
|   |   |         | <input type="radio"/>            | € 32,00 + 5 koperen keesen               |
|   |   |         | <input type="radio"/>            | € 27,00 + 10 koperen keesen              |
| 1 | X | normaal | <input checked="" type="radio"/> | € 37,00 (Vriend 2011-2012 losse verkoop) |
|   |   |         | <input type="radio"/>            | € 32,00 + 5 koperen keesen               |
|   |   |         | <input type="radio"/>            | € 27,00 + 10 koperen keesen              |

**tickets: € 70,30**

**totaal (excl. reserveringskosten): € 70,30**

[plaats in winkelmandje](#)

# Other case studies

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- ▶ Golden Seat
- ▶ 1 very cheap row for new audience
- ▶ Enlarging price difference between categories



# Variations

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- ▶ Psychological prices
- ▶ EarlyBird prices
- ▶ All-in prices
- ▶ Subscriptions
- ▶ Free tickets
- ▶ Day of the week
- ▶ Time of the day



# continuation

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- ▶ Newcomers discount
- ▶ Last-minute tickets
- ▶ Pay what you want
- ▶ Pay as you go
- ▶ Auction ([hotelveiling.nl](http://hotelveiling.nl))
- ▶ Retail outlets
- ▶ Secondary ticketing



# Pay what you want

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- Experiments (Ro, Tilburg, Sittard, Venlo)
- No scientific analysis
  - Publicity
  - Revenues half of ticket price
  - No extra audience
  - Encouraging image
  - But: will be a bad performance





# Daily practice?

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Prices for non-profit theatre companies are currently set using a combination of techniques including

- ▶ benchmarking against competitors,
- ▶ offering discounts to certain audience segments,
- ▶ offering volume discounts such as subscriptions,
- ▶ assigning different values to different attributes of the attendance experience.



# Continuation

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- Cost-based Pricing
- Demand-based Pricing
  - history
  - experience
  - 'fingerspitzengefühl'
  - scientific
- Ideological

# How to improve pricing policies?

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Dolan (1981) divided the actions to be taken in eight steps:

1. Examine the value customers place on your product;
2. Look for variation in the way customers value the product;
3. Assess customers price sensitivity;
4. Identify an optimal price structure;
5. Consider competitor's reactions;
6. Monitor prices realised at the transaction level;
7. Assess customer's emotional response;
8. Analyse whether the returns are with the cost to serve.

# To imply a profoundly thought pricing strategy

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- ▶ Make your objectives clear; for yourself and for the whole organization (occupation hall, participation, segments, value perception, earned and unearned revenue);
- ▶ Determine the positioning of your theatre or concert hall (price leader, price follower);
- ▶ Combine value and price (price structures);
- ▶ Develop an effective policy of communication;
- ▶ Follow the selling of tickets day by day;
- ▶ Have a dedicated person to analyse and keep control of pricing matters;



# Continuation

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- ▶ Intervene when ticket selling stays behind schedule;
- ▶ Simplify methods of making reservations;
- ▶ Restructure the policy of discounts, price discrimination and so on;
- ▶ When offering discounts offer fixed amounts instead of percentages;
- ▶ Prevent abusing discounts and special arrangements by people who do not belong to the specific target group;
- ▶ Do not offer discounts on the most popular performances and concerts, or it must be price discrimination for low income groups;
- ▶ Introduce a loyalty program for your frequent visitors;
- ▶ Consider early bird discount or early bird surcharge (for example via the membership of a loyalty program) because of the first choice of the best seats. (This list is partly based on Wellens, 2012).



# Wellens (2012)

Characteristics	Example	Form
Segments	Age, family, groups, loyal customers, private persons, companies, sponsors	Price discrimination, third level
Purpose	Own consumption, relation marketing, giving as present	Motivation
Distribution	Internet, retail, box office	Product differentiation
Time of purchase	Early booking, during season, last minute	Price differentiation
Time of performance	Day of the week, morning, matinee, evening, night, midnight	Product/price differentiation
Quantity	Number of tickets or performances	Price discrimination, second level
Price sensitivity	Voucher, basic price, closing day of price promotion	
Ranks	Range of prices within hall	Price differentiation
Ancillary services	Special lobby, cancelling terms	Product differentiation
Performances	Premiere, gala, derniere	Product differentiation



## Other lessons

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- ▶ Politicians prefer price discrimination to price differentiation. The reason is they often present certain segments like elderly or low income groups. And they can show their influence when a subsidized theatre uses price discrimination.
- ▶ Economists prefer price differentiation to price discrimination. They want to satisfy every consumer with offering a price that fulfils his expected and experienced value.
- ▶ And finally we believe Volpano and Bilotkach (2008) who state that a wide array of prices optimizes revenue.

