Chapter 7

Setting Prices for Sports & Entertainment

“We sell entertainment.” Mark Cuban, Owner, Dallas Mavericks

In the sixth chapter and last verse, we established that pricing in sports and entertainment venues is dependent upon having an attractive place (stadium/arena) and product (the number and quality of star players and the quality of the team in terms of winning). The data from Major League Baseball attendance over the past 20 years indicate that attractive teams can charge more for tickets and concessions. Chapter five’s data from over 5,000 NBA fans revealed that fans perceive higher value for those tickets representing the better seats in the venue.

Why are fans willing to pay more for sports and entertainment tickets? Fans are buying experiences, not tickets. Sure, it’s an experience to sit in the south end zone of the Georgia Dome with over 45,000 other fans to watch Michael Jordan play a basketball game in the north end zone on his farewell tour. But, a much better NBA experience is sitting close to the court with friends or family and hearing the players share their thoughts regarding the last call with the referees. And, with a little luck, you can actually say something the referees hear—not that it has any more effect than when delivered from the rafters. But, you feel better.

When selling experiences we emphasize the four Fs of sports and entertainment consumption: fantasies, feelings, fun, and friends. Feel

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1 Yes, the author did this in 2003, as well as holding up signs for Dikembe Mutombo and cheered for “defense” from approximately 100 yards away from the court.
free to substitute or add *family* as another “F” in the equation, dependent upon whether you think of them as friendly or another category. In addition to the “F’s,” my friend Morris Holbrook explains that we should think of experiential marketing in terms of the **four Es**: Experience, Entertainment, Exhibitionism, and Evangelizing.\(^2\)

<table>
<thead>
<tr>
<th>Experience</th>
<th>Entertainment</th>
<th>Exhibitionism</th>
<th>Evangelizing</th>
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<tr>
<td>Escapism</td>
<td>Esthetics</td>
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<td>Emotions</td>
<td>Excitement</td>
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<td>Enjoyment</td>
<td>Ecstasy</td>
<td>Expose</td>
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When communicating the nature of the *experience* with fans, you want to emphasize the *escape*, the *emotion*, and the *enjoyment* of the event. You may think we’ve used *enough* E words, but there’s more. You’re not selling a game, you’re selling *entertainment* that uniquely occurs only that way on that particular three hours that will never be repeated in exactly the same way. The suspense and uncertainty of *esthetic* performances (e.g., Will the pitcher throw a shut-out?) breeds *excitement* and *ecstasy*. You aren’t selling vacuum cleaners, because nobody does that door-to-door anymore. You’re selling entertainment!

Selling the experience as entertainment means that fans have the opportunity for *exhibitionism*. No, nothing that will get them arrested (usually). We’re talking about the opportunity for fans to *exhibit* their love for the players and the team, to *express* their passions, and *expose* their support of the team to others. When fans have an entertaining experience exhibiting their love for the team with others, they *evangelize* others into being fans, as they *educate*, *evince*, and *endorse* the experience. If you are a passionate fan, you *educate*.

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\(^2\) Note: Holbrook discusses only three Fs. We threw in the fourth “Friends” for fun….and because that’s the best way to experience the first three. See: Holbrook, Morris B. (2000), “The millennial consumer in the texts of our times: Experience and entertainment,” *Journal of Macromarketing*, 20 (December), 178-192.
others as you talk about the game experience. You *evince*, or validate the experience to others with your first-hand knowledge of being there. Clearly, you will *endorse* the experience to others as a great way to spend time out for entertainment.

If a team is selling you something with that many *Es* and *Fs* going for it, how much would you pay for the experience? In short, you’ll pay more for it than for products or services that aren’t much *fun with friends*. When setting prices, we need to know how price sensitive customers are likely to be given the context of what we are selling. In this context, **price sensitivity** refers to how fans react to price variations of tickets, concessions, merchandise, or any other aspect of the entertainment experience.

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**Figure 7.1 Price Sensitivity for Consumption Experiences**

![Price Sensitivity Diagram](image-url)
Figure 7.1 illustrates how price sensitivity changes dependent upon whether the consumption experience setting is private (alone) or social (with others) and whether the occasion is functional (for necessities) or hedonic (for fun).\(^3\) We are most price sensitive when the consumption experience has no social interaction and the occasion is functional (Quadrant 1). Very few entertainment experiences fit in this quadrant. Picture needing to get a quick bite to eat in your apartment by yourself, and you’re probably picturing a Totino’s pizza you got on special for $0.83. Keeping with the same pizza example, imagine you are by yourself but want to eat something to reward yourself (i.e., alone; for hedonic pleasure; Quadrant 2). Or, imagine you have to get something to eat, but you are doing so with friends (i.e., necessity; with others Quadrant 3). In either situation (Quadrants 2 or 3), you will be less price sensitive than when the situation is private and functional (Quadrant 1). Now imagine, if necessary, that you are having a few friends over on Saturday night to watch football. Odds are you will be even less price sensitive about what pizza you buy—because of the social setting (not wanting to appear cheap, even if you are a tightwad) and due to the purpose of the occasion to have fun.

Selling sports and entertainment experiences clearly lands in the fourth quadrant, where fans will be least price sensitive. As you can see, managers who want to compete on price are basically saying that the experience they are selling is not much fun. And, you’re probably going to be sitting by yourself because no one else will go with you.

Appealing to fans on the basis of price focuses on the economic exchange. Once you begin down the path of price deals and discounts, a psychological trigger occurs in the minds of fans to process price information

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in functional (left brain) terms of dollars and cents—rather than the emotional value received from the experience. We would rather keep fans focused on the 4 Fs and 4 Es of the experience, which are processed primarily on the right side of the brain. The right side of the brain is where we have fun, as the accompanying scientific drawing of brain hemispheric lateralization illustrates.

**Price Lining Strategy**

Now that we understand the theoretical and practical foundations for price setting, we can turn to more strategic issues of setting prices. Sports and entertainment organizations typically follow a **price lining** approach to set different prices for distinctly different levels of product quality. Restaurants offer different price levels for appetizers, sandwiches and entrees. Department stores offer different price levels for low-end to high-end dresses, blouses and shirts. Each of these price levels appeals to segments with different price-sensitivity levels that value the product differently based on personal preferences and resources. While fans are less price sensitive for the experiences we are selling than they are for things like toothpaste or gasoline, some fans are still more price sensitive than others. In particular, fans with more income are generally less price sensitive than those with less income.4

Apart from the quality of the team, players and venue itself, it is likely no news to you that sports venues may offer different **levels of quality** with respect to:

1. seats

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a. view  
b. comfort  
c. amenities  
d. service

2. participants  
a. opponent teams  
b. tournament or race entrants

3. timing  
a. pre-season, season, post-season  
b. weekday vs. weekend; day vs. night

The quality level with respect to seats remains constant across events or games throughout the season. The quality level with respect to participants changes from event to event, dependent upon the opponent or the entrants. The quality level with respect to timing changes on the basis of availability and desirability. All else equal, the timing of Saturday evening is more likely to be available and desirable than Tuesday afternoon for most fans. Differences in participants and timing have given rise to dynamic pricing models, which are discussed later in this chapter.

Sports teams have a finite inventory quantity at each pricing tier. Strategic marketing planning should account for these differences in quantity and quality, such that the team offers price lines consistent with market conditions, market demand, product quality, venue quality and promotional positioning.

Setting prices for each level of inventory is unlike pricing for goods and many services. Most costs associated with a sporting event are fixed. Whether 1,000 fans or 60,000 fans attend, the production costs for the game itself remain relatively constant. Larger crowds mean more game staff, but variable costs are minor compared to fixed costs associated with the stadium, payroll, and event expenses that will be incurred no matter the crowd size.
Seat inventory is **perishable**, meaning that once the game is played, that inventory is lost. Unused seats also affect the volume of other venue sales (viz., food, beverages, and souvenirs). Consequently, management is highly motivated to maximize capacity use. The temptation is to offer ticket discounts to adjust for lower than expected performance with respect to the other marketing mix variables (i.e., the core product, place, promotion).

**Don’t do it.**

Once you begin the walk down the slippery path of ticket discounts, it is difficult to get back up the hill. David Stivers, Vice President of Marketing for Pebble Beach Golf, outlines three key reasons that sports organizations should never offer price discounts:

1. You run the risk of alienating your customers who are paying full price.
2. The discounts may become permanent (in the minds of consumers).
3. Discounts generate a negative connotation for your brand.

David goes on to state the importance of understanding how certain contexts or situations may influence the need to offer alternatives that add value, but that do not cut prices on the core product:

> “Although Pebble Beach does not offer price discounts, we will during certain times of the year offer package deals that allow our guests to receive greater value for their dollars: A room and golf package; a room and spa package, etc. One thing we don’t discount, ever, is Pebble Beach Golf.”

Obviously, we would all like to be working or at least playing at a place like Pebble Beach. Since not all of us can, we need to strategically offer price lines that will maximize revenue given the context and situation of the experiences we are selling.
The goal of **profit maximization** is to adjust either the quantity of seats available or the prices of the seats in order to maximize the gap between revenues and costs. Consequently, the strategic goal in setting ticket prices each season is to determine the appropriate quantity of seats at each price line that will maximize revenue. While beyond the scope of this text, this calculation can be made on the basis of regression equations similar to that presented in Chapter 6 for determining Major League Baseball prices. However, we can translate the approach in simple terms with a current example.

The Texas Rangers average ticket price across all price lines in 2010 is approximately $20 and attendance averaged 30,928. Given the market conditions (e.g., substitute entertainment products), management may set an attendance goal of 31,000 in 2011. Given our variables to predict ticket prices in Chapter 6, can you see some of the assumptions management would have to make to set prices?

1. **Stadium:** Assuming no stadium enhancements, the stadium is one year older.
   Without changes, the stadium factor would not justify raising prices.

2. **Players:** Prices should remain status quo if the current roster remains intact and performs at approximately the same levels. If the team loses major players (e.g., Cliff Lee) or star players perform at substantially lower levels (e.g., can Josh Hamilton and C.J. Wilson replicate career years?), the perceived value of tickets will diminish.

3. **Winning:** The 2010 performance justifies raising prices. If 2011 winning percentage maintains this pace, fans will perceive good value of higher prices. If winning percentage drops significantly, higher prices will not be positively perceived as the season progresses.

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4. **Population and rivalry:** Assuming no substantive changes in the population and rivalries, all things equal, prices should remain constant. However, if the home schedule favors more rivalry or otherwise attractive games (e.g., intrastate games with the Astros; interleague games with major metropolitan teams such as the Dodgers or Cubs) than previously, ticket prices may increase.

5. **Price Signals:** Ticket prices and concessions can serve as a *price signal* to inform buyers as to the quality of the service provided. Obviously, seats in the lower bowl will cost more; but, higher prices can signal exclusivity for more prestigious seats with such features as in-seat wait service, premium parking passes, and access to upscale dining. Increased exclusivity and scarcity can justify higher prices. Hence, if the availability for exclusive seating is limited (e.g., season tickets and premium seating are sold-out), the team can justify increasing prices.

6. **Per capita income:** Given the last few years of recession, teams have been slower to increase prices. However, if the economy does surge ahead, then the team can justify a commensurate price increase. We are not holding our collective breaths.

Given these conditions, would you recommend lowering, maintaining, or raising prices at each of the price lines for the Texas Rangers in 2011? Would you recommend the team maintain keeping the various discounts built into the 2010 pricing schedule? Does anyone remember what we think about discounts?

**Price Discrimination**

There are instances where it makes strategic sense to have differences in prices. Most new stadiums are designed with capacities (less than 40,000) similar to the successful older
venues such as Wrigley and Fenway. But, in those cases where excess capacity exists, the key is to avoid offering *unplanned*, non-strategic discounts. Recall that the team offers different quality levels of seats, dependent upon the seats (view, comfort, amenities, service), participants (opponents), and timing (weekday vs. weekend; day vs. night). Strategic discounts account for these differences and set the prices *before* the season begins to maximize revenue.

As Scott Brubaker, former Vice-President of the Arizona Diamondbacks states,

> “Strategic discount packages are a very important part of overall marketing plans. First of all, you have an inventory of over 4,000,000 seats for sale. Without some creativity, you would have great difficulty moving all the excess—particularly if the product is not performing well. All discount packages should be strategic in the sense that they
> 1) Are programmed and consistent (i.e., different discount or offer on different days of the week) and
> 2) They all are in some form of partnership with one or more of our sponsors who support each program promotionally and otherwise.

Discount programs are ok and necessary as long as they don't create the attitude, "Why buy a ticket for full price because there are always cheap or free tickets out there." You must walk the line of moving the most amount of product you can and still retaining the value of that product. Once you devalue your own product you can never go back.”

The point here is that any form of price deals should be a part of a strategic plan and *must* consider the situation or context that drives some segments of fans to respond to price differentials. The end objective, of course, is to get to the point where demand exceeds supply and the sports organization is in the position of building value for its current (and future) customers, as is the case for some NFL teams who have sold out of all available season tickets. Such is less likely the case for teams in leagues that play long schedules with many games, such as MLB, NHL, & NBA. In any case, teams frequently practice some form of price discrimination to reduce inventory. And, if they are going to do it, they may as well do it right.

Marketers use *price discrimination* when different customer segments are willing to pay different prices for the same experience. In one sense, the sports marketer sells tickets at different prices to view the same sporting event. However, given that the tickets represent seats
from different views of the event, the sports marketer is actually selling tickets to experience the event at different quality levels. In that sense, the sports marketer is primarily just using price lining or tiered pricing. However, if a team sells the same ticket (e.g., reserved balcony seats) at different prices, then the team is using price discrimination. Or, they may just be disorganized. Sports marketers that offer discounts on tickets that simultaneously sell for higher prices without effectively planning and practicing price discrimination are likely to confuse and alienate fans.6

Organizations may seek to not maximize revenue due to other organizational goals. NBA teams all must make low-priced tickets available for low-income fans. In other cases, the community’s local government may require the team to follow pricing guidelines in order to obtain public funding. Denver has required the Broncos to sell 2000 tickets to the community at 50% of regular ticket prices for this reason. Unfortunately, this practice has turned into a public relations fiasco and management nightmare due to the fact that the team has had difficulty finding ways to fairly distributing these tickets to disadvantaged fans who are not also scalpers.

Price discrimination can be planned and practiced when organizations are able to forecast that event capacity will not be maximized. Sports marketers can carve the market into SLICES for price discrimination if six conditions are met (see Table 7.1). Based upon these six conditions, when can organizations use price discrimination for tickets?

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6 A good (or bad) example of this is the frequent practice by airline and hotel operators who offer different prices—based primarily on customers’ ability and willingness to search for low prices in advance (7-21 days) of purchase. Consequently, customer confusion and frustration is frequently high. Note: You can always save by using www.hotwire.com or www.priceline.com on hotels & car rentals. The best flight deals are often at the source (www.southwest.com, www.airtran.com, etc.) or from the source (Delta Air emails).
Table 7.1 Conditions for Effective Price Discrimination

<table>
<thead>
<tr>
<th>Issue</th>
<th>Price discrimination works when segments:</th>
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<tbody>
<tr>
<td>Sensitivity</td>
<td>have different levels of price sensitivity that motivates some fans to search for lower prices.</td>
</tr>
<tr>
<td>Large</td>
<td>are large enough to warrant different prices.</td>
</tr>
<tr>
<td>Identifiable</td>
<td>are identifiable so that they can be priced differently.</td>
</tr>
<tr>
<td>Confusion</td>
<td>are not confused by the different prices.</td>
</tr>
<tr>
<td>Economics</td>
<td>are economically profitable segments.</td>
</tr>
<tr>
<td>Separation</td>
<td>are separate enough so that those who pay one price can’t exchange the product (or ticket) with those who paid higher prices.</td>
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First, fan segments must differ in price sensitivity. Recall that price sensitivity refers to how people respond to changes in price. Lower-income consumers are often more price-sensitive than others. Interestingly, these individuals are not always willing to search for low prices for leisure and entertainment. This suggests that, second, the segment must be large enough to warrant the different prices. Management must be careful to not overestimate the size of the price-sensitive segment for tickets. For instance, a survey that asks fans opinions about current ticket prices will nearly always lead one to believe that a sizeable price-sensitive segment exists. However, such research should examine actual behaviors of those individuals who say they are price-sensitive. Most folks prefer lower prices. But when it comes to sports tickets, a much smaller proportion may actually want to buy the lower priced ticket. Further, when it comes to spending on entertainment experiences (fun; with others), even lower income fans may be willing to spend full-price for tickets. They just aren’t as likely to buy frequently.

Third, management must be able to identify the segments that are price-sensitive. The best option for doing so is through effective database management. Individuals who fit price-sensitive profiles (low income, purchase lower priced tickets, attend infrequently, otherwise...
loyal/identified with team) may be selected to receive pertinent ticket information. The problem with a good deal of sports marketing promotions targeting price-sensitive segments is that they are communicated through mass media communications (TV, radio, newspaper, etc.) that include wasted coverage given the promotion and price objectives. Furthermore, offering different prices for the same ticket through such media may also lead to violating the fourth principle of effective price discrimination.

Accordingly, price discrimination methods should not confuse fans. In particular, offering discounts for some games/events and not others for the same ticket (e.g., reserved seating) may lead fans to become disillusioned as to the real value of the ticket. If fans find that seats on Tuesday’s Ladies Night are priced at $7.00, but are $9.00 on other week nights, what is the perceived value of the ticket? The perceived value of the ticket is based upon what a fan thinks s/he gets for what s/he gives. If a fan can get a ticket for $7 (or even get free tickets), what is the perceived value of the same ticket at $9? What is the bottom line? *The more frequently discount or complimentary tickets are offered, the more fans’ perceptions will shift toward the lower price.*

Fifth, the segments targeted via price discrimination must be economically profitable. In the short term, offering lower ticket prices to price-sensitive segments are likely to be profitable in the sense that each additional ticket sold at the lower price brings in additional revenue with little incremental cost. Management must be certain, however, that they are not simply shifting demand from fans who would have purchased the higher priced tickets anyway. Sticking with our example of $9 reserved seats, a team may run a price promotion for the $7 discounted seats and sell 1000 of these tickets. Does this mean that this price promotion produced $7000 in
additional revenue? Not necessarily, since some portion of these 1000 would purchase regular priced tickets without a price promotion.

What if the team had not expended the resources to run the promotion and sold 800 tickets at the regular price? It is commonly known among sports marketers that individuals that receive cheap or free tickets also spend little or nothing at the event on concessions or other items (viz., low per-caps). This question of trade-offs requires more in-depth quantitative marginal analysis, but one should be able to see the risks in simply shifting demand due to price discounts. Admittedly, any sports marketer worth his or her salt would only run a promotion with the financial support of a sponsor that covers the potential loss of any revenue. However, the long term cost of running the price promotion is likely to be in the effect that prevailing discounts have on fans’ perceived value of the ticket.

Finally, marketers can use price discrimination if the price-sensitive segment can be effectively separated from those less price-sensitive. If the cheaper ticket can be bought and transferred to others at a higher price, then the profits are simply shifted from the sports entity to middlemen known as scalpers or brokers. Clearly, the Denver Broncos practice of selling 2000 tickets at half price (to satisfy local government requirements to make tickets available to underprivileged segments) gives an excellent opportunity for individuals to purchase and resell the tickets. Another example of ineffective price discrimination due to the lack of separation also occurred in Denver. Fans attending a Denver Nuggets game received a free ski lift ticket to local ski areas. Within the week, attendees were selling these lift tickets on eBay at prices approaching the regular daily lift ticket prices.

But, what about being socially responsible for the poor fan who can’t afford to go to a game? Social responsibility is an important reason for sports marketers to consider price

7 I don’t really know what this means. Why would anyone price one’s self relative to salt?
discrimination. If members of the organization and the community agree that an important goal for the sports entity is to serve less affluent segments of the population, clearly management has a responsibility to seek ways to achieve this objective. Perhaps the easiest thing to do is to offer cheap tickets so that the club can claim it is doing what it can to reach out to all segments in the community. However, many of the “value tickets” to these events only give the fan the opportunity to get in the building at the same time a game is being played. Since the only thing they can really see well is the large video scoreboard, they would have been as well off watching on TV at home.

If sports entities really want to fulfill social responsibility objectives, they would be more effective if they used some of their profits to directly assist those less privileged. For example, the Memphis Redbirds AAA baseball team is set up as a nonprofit organization. Its profits are returned to the community via two programs, STRIPES (Sports Teams Returning in the Public Education System) and RBI (Returning Baseball in the Inner-city). These programs do three things.

- First, they provide support for underprivileged children to participate in sports programs that they could not otherwise.
- Second, the nature of the programs is tied directly to building involvement in the sport, which should help build a long term fan base among the participants.
- Third, these programs can provide the opportunity for participants to attend the team’s baseball games. In this manner, individuals who really do need discounted or complimentary tickets are identified and served.

The overall point here is that anyone can run a price discount. It takes a good deal more planning and caring for sports marketers to actually achieve social responsibility objectives.
Ticket Resellers and Dynamic Pricing Models

The preceding discussion regarding profit maximization and the use of price discrimination practices underscores the fact that if ticket resellers are buying tickets in bulk to resell on StubHub.com, the team is practicing inefficient price levels. In other words, if resellers can make substantial amounts of revenue on the difference between face-value and street-value, the face-value clearly hasn’t reached close enough to the price threshold of consumers. Put another way, consumer surplus for the experience exceeds the face value of the ticket and management is leaving money on the table.

The reality is that setting price lines for lower level box seats, premium seats, reserved seats, and general admission is difficult for most teams. Too many unknowns exist. How will the team perform? How will opponents perform? What other competitive substitutes will prevail on the date of a specific game? Two approaches have arisen to deal with these uncertainties.

The first approach is to allow fans to engage in a ticket exchange that allows ticket holders to place unused tickets they own available to other buyers to purchase through the team’s online exchange program. These tickets can be resold at auction or set prices determined by the seller. The advantage of this approach is that the team maintains control of the process and can analyze the data to determine appropriate prices for the coming season. The disadvantage of this system is that the exchange may not have the vast reach of other resellers such as Stubhub.com or eBay.com.

The second approach is to practice dynamic pricing. Dynamic pricing models are frequently used by airlines, hotels, theaters, and more recently, sports and entertainment entities. The San Francisco Giants are the first team to go to a 100% completely dynamic pricing model that uses a mathematical algorithm to determine the demand for a specific game, taking into
account the situational quality factors. Season ticket holders are protected so that no one can obtain the same quality level of seat for a lower price than the season ticket holder paid. Using this approach was particularly profitable for the Giants in 2010, as key games down the stretch drew increasingly higher prices to accommodate the demand. Overall, the Giants increased revenue per seat by 7-8% this season compared to 2009. Generally speaking, the advantages of dynamic pricing are that it provides both team and fans with ticket prices more closely approximating actual value. Clearly, the Giants wouldn’t have sold out the season-ending series with the Padres if fans weren’t willing to pay. The disadvantage of directly selling tickets in a dynamic fashion is that in periods of less demand, buyers may learn to wait until the last minute to buy discounted tickets.

**Conclusion**

Any fool can offer a discount. Strategic price planning guides managers in setting prices that send the appropriate signal to fans and builds positive perceptions of value. What should you do if forced at gunpoint to offer discounts in the middle of the season? Here are two things not to do and four to do:

1. Do not undercut prices paid by season ticket holders for the same seats.
2. Do not mass promote to the public.
3. Do target price-sensitive segments 1-to-1 via your database with an “exclusive” offer.
4. Do have a sponsor cover the cost.
5. Do make price sensitive fans take action to receive discount.
6. Do learn from your mistakes and read this chapter again before next season.

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