

CASE STUDY: What price is right for Lookingglass?

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Case study on how Chicago's Lookingglass weathers the recession with clever pricing.

Situation

Lookingglass, the rising star of Chicago's theater, has built a strong following with its thrilling productions which merge a theatrical narrative with acrobatics and dance. But the company is not immune to the ongoing economic crisis. After two years of shrinking contributions, it started to question the 'one price fits all' policy it had adopted since its creation. With the help Paula Colletti, a graduate student in the Arts Entertainment and Media Management Department of Columbia College Chicago (the largest such program in the world), it reviewed its pricing strategy to better reflect its true artistic value.

Analysis

Colletti first decided to gain clarity on the pricing practice in the field. She selected 112 theaters nationwide with capacities ranging from 50 to 500 seats, and asked them a series of questions regarding their pricing policy. She discovered that the majority of theaters with more than 300 seats had identified three seat categories and adopted a three-tiered pricing scale, whereas the majority of those with less than 200 seats had a single price for all seats. The majority of the theaters surveyed offered up to six different ticket prices per week for the same production, according to the time and day of the show. Colletti then analyzed the price grids of Lookingglass' seven closest competitors in Chicago. Their ticket prices varied from \$12.00 to \$70.00, but there was no distinct scaling trend according to size. Since she could not rely on any definitive industry standards, she decided to dig deeper into Lookingglass' sales history.

During the 2008-2009 seasons, the average price for tickets sold was approximately \$32.00 including all discounts, with the highest ticket at \$60.00 and the lowest ticket at \$30.00. Typically, the theater raised its ticket price from \$1 to \$5.00 per season, according to the economic climate, past sales, competitor prices, upcoming productions, past ticket prices, the day of the week, and the performance time. The theater followed basic industry practice, such as offering lower priced tickets from Sunday through Thursday evenings, and higher prices from Friday evening through Sunday matinee. Each performance had one standard ticket price regardless of seat location.

Colletti was determined to provide the company with a comprehensive scaling recommendation for each space configuration.

Methodology

To assess what value customers placed on attending a LookingGlass performance, Colletti used the Price Sensitivity Meter, introduced by Dutch economist Peter van Westendorp¹. This technique helped define a price range patrons were willing to pay for specific tickets by asking them four questions:

1. At what price would you consider the ticket to be too cheap to be of value?
2. At what price would you consider the ticket to be expensive but worth considering?
3. At what price would you consider the ticket to be too expensive to consider?
4. At what price would you consider the ticket to be a bargain?

¹ Market Vision Research, "Van Westendorp: Price Sensitivity Meter," www.marketvisionresearch.com (accessed February 13, 2009).

Colletti sent this questionnaire to a representative sample of Lookingglass patrons, and plotted the answers in a frequency distribution chart, with price as the abscissa and the percentage of answer as the ordinate. The price at which the curves for questions one and two intersect is called the point of marginal cheapness. The price at which the curves for questions three and four intersect is called the point of marginal expensiveness. These two points define a range of acceptable prices for the ticket. Colletti also asked patrons a set of questions to determine if they actually knew the average ticket price to a Lookingglass performance.

To identify variations in the way customers valued a ticket to Lookingglass, Colletti organized a focus group with people who had never attended a Lookingglass performance. She identified 12 participants who were from 19 to 56 years old, both male and female, of various ethnicities, and had annual income ranging from under \$20,000 to over \$200,000. Each person was assigned ten seats (a seat per row plus a back corner seat, an aisle seat and a side-view seat) and was asked to assign a dollar value for each of these seats. The Van Westendorp Price Sensitivity Meter was used once again to determine preferences and optimal price ranges.

Price elasticity is the term used to describe the relationship between the price and the quantity of products purchased. This quantity varies inversely to the price. Demand is considered elastic if, after a price change, the quantity sold varies more than proportionally to this price change. Conversely, demand is considered inelastic if, consumption varies less than proportionally to the price after a price change². In order to correctly calculate elasticity of demand there must be at least two different price points used for the same show. Although Lookingglass did not usually change the price of a show during its run, the company decided to increase ticket prices for the extension of its 2008-2009 production of *Hephaestus*. Colletti could thus access two sets of price / demand data for this production, and use them to calculate a price elasticity ratio.

To identify the optimal pricing structure for Lookingglass, Colletti created a Microsoft Excel model synthesizing the findings of the survey and focus group. The model displayed several seating charts enabled with a macro - a series of commands and functions. The macro allowed Colletti to change seat allotments and price categories according to predefined scenarios, and measure the financial impact of such changes.

Findings and Recommendation

To Colletti's surprise, many interviewed patrons remembered paying more than what they actually did. Whereas the average ticket price including all discounts was set at \$32 for the 08-09 season, 28% of the audience members who answered the survey believed that this price was between \$41 and \$50 and 40% of them believed it was between \$51 and \$60. The average perceived price of \$42 - \$10 more than the actual one - gave an early indication that Lookingglass performances were underpriced.

Patrons were also asked the four Van Westendorp Price Sensitivity Meter questions. The point of marginal cheapness was around \$30.00 and the point of marginal expensiveness was around \$48.00. The average ticket price (\$32) fell at the low end of this range. Colletti then analyzed the date and time preferences of the patrons surveyed. The preferred performance times were Sunday matinee and Saturday evening. Sunday matinee tickets were priced \$10 below Saturday night tickets – a spread that this survey seemed to prove unjustified. Friday night tickets were at the same price as Saturday night ones, and yet were not as popular – the sign of another potential readjustment.

The mission of the focus group was to determine the value of each individual seat based on several elements including proximity to stage, proximity to aisle, proximity to lobby, legroom, and view. The first task of the group was to pick out the 'best' and 'worst' seats in the theater and assign a dollar value to each, to define the two extreme points of reference. The focus group found the 'best' seats to be located in the center section of the

² Colbert, François with Suzanne Bilodeau, Jacques Nantel, Philippe Ravanas, J. Dennis Rich and Yannick St-James, *Marketing Culture and the arts*, 3rd Edition. Press HEC, Montreal, Canada, 2007. P. 183

theater and gave them a value that was \$14.80 above the highest ticket offered by the company. The ‘worst’ seats were all located in the side sections and were given a value of \$1.50 above the lowest ticket price offered.

The focus group set a price range of \$15.00 to \$100.00 for their ‘worst’ and ‘best’ seats, a much larger spread than the one between the lowest and highest ticket price practiced by the company. Each focus group member was then assigned 10 seats in the theater to price. The resulting average was \$45.46 – significantly higher than the actual average price of \$32.

The focus group respondents were also asked several questions about scaling and pricing. 92% of them declared that they preferred having a choice of several ticket prices for a given performance, a strong plea in favor of scaling. They were also asked to rank several characteristics of a seat in order of preference. Proximity to stage came first, followed by legroom, proximity to aisle, then proximity to lobby. The other responses included: recline ability, perspective of action on stage, best sightlines, being able to see the entire production from a neutral point, being center stage, and seat comfort.

When asked the average price of a theater ticket in Chicago (not necessarily for a Lookingglass play), 50% of the focus group members responded that it was between \$41.00 and \$60.00. This again was higher than the company’s average ticket price.

In order to determine if a change in ticket prices would affect the demand for tickets, Colletti calculated the price elasticity ratio for the show *Hephaestus*. All the performances where price had changed from the regular run to the extension saw little effect on the number of tickets sold, which indicated that demand for *Hephaestus* was inelastic.

Based on her findings, Colletti recommended that Lookingglass scale its house and restructure its ticket pricing strategy. She suggested a 3-tiered pricing structure and used the information from the focus group to determine where the “better” sections of the theater were located. She then created an Excel model for each configuration to assist in calculating the optimal seating and pricing structure, and found that, if implemented, her recommendations would increase revenues of at least 10%, with little to no effect on attendance.

Results

Lookingglass began implementation of Colletti’s recommendation during its 2009-2010 season, and saw immediate results. “We have progressively introduced our new scaled pricing policy for our production of *Arabian Nights*,” declared Erik Schroeder, the company’s Marketing Director³. “We lowered the price of the balcony by \$2.00 and raised the price of the main floor by \$2.00. There were more seats raised than seats lowered. It was a small spread, so many customers chose to pay \$4 more to be guaranteed a better seat. It allowed us to improve our revenues by 15% over budget. The next step will be to fully implement Paula’s recommendations for our forthcoming production. We will have a three-tiered pricing scale and a spread of \$50 between the highest and lowest ticket price for the same performance over a week. That’s a huge change for us.”

³ Interview with the authors, December 18, 2009