

MEETING THE ONLINE OPPORTUNITY

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Market research and consultancy

PRICING DISCIPLINE, PRICING SCOPE
AND PRICE ELASTICITY

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PRICING DISCIPLINE, PRICING SCOPE AND PRICE ELASTICITY

INTRODUCTION

Forward thinking organisers, venues and the arts and culture sectors will have an eye on the opportunity to generate revenues from online activity and seek to gain a more rapid revenue recovery.

A high proportion of the UK population is Covid-19 cautious and many may take some convincing to attend indoor events. More say that they are ready to attend nature parks and gardens but are wary of attending outdoor events like music festivals that in the past would attract large crowds.

During lockdown many organisations have sought to maintain a visible presence in their markets through online activities: simulcasting of events and performances, providing access to a library of previous classes and performances and classes and webinars. In some cases these have been revenue providers for relatively little investment, but for most it has been about brand continuity.

Providing online experiences can enable a reach to previous customers and also to new customers and to new markets. Many in the community may not have previously engaged with a brand for a variety of reasons - financial, geography, life stage commitments, disability and so on – can online presentation and engagement increase your brand reach and create a larger market opportunity?

The Royal Opera House, building on its success of live streaming from Covent Garden, launched a programme of paid for online experiences with a £4.99 per performance ticket price. Our report indicates that the ROH may not be optimising revenue at this price point.

Laura Marling's 'Union Chapel' concert on 6th June 2020 attracted an online audience of 6,500 at a ticket price of £12.50. Our report indicates that Laura Marling may be optimising revenue at this price point.

PRICE ELASTICITY TESTING

If the aim is to use online performances or interactions to generate a revenue stream it is important to understand who you are targeting and how much audiences will pay.

What is the best price?

Arriving at the right market price for an online experience (or indeed physical experience) is difficult. In fact, arriving at the right price is one of the toughest marketing jobs, in large part because it can have such a big impact on an organisation's bottom line.

Sensitivity in pricing

Most people are sensitive to the price of a product or service and of course that includes online performances and classes as well as visitor attractions.

The general assumption is that more people will buy a product or service if it is cheaper and less will buy it if it is more expensive. The demand and supply curve is quantifiable and the concept of price elasticity tells us how responsive customer demand is for a product or service based on its price.

We can see from a demand and supply curve how many people will buy at any given price point. A lower price point may increase the volume of sales but not necessarily increase the revenue over that achieved at a higher price point. It is important to examine and understand the price to demand relationship for all key audience segments.

RESEARCHING PRICE ELASTICITY

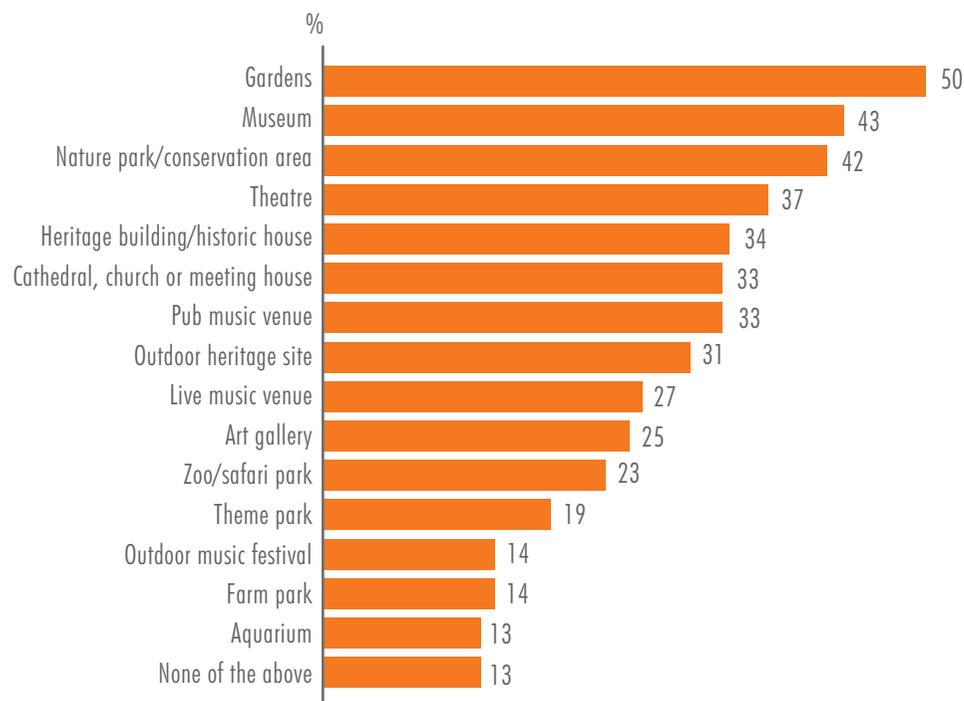
To explore the price to demand relationship for online performances and classes we investigated activity, purchasing and price points with a sample of 1019 active people in the UK. The research project, undertaken in June 2020 with Panelbase.com, interviewed people who had paid to visit at least two visitor attractions in the 18 months before the UK entered lockdown at the end of March 2020.

As part of this research we examined what visitors were viewing or participating in online, what they expected to continue with after lockdown and then what they would pay for their online experiences. Using this data we can illustrate pricing research and price elasticity testing and look at how price influences demand.

(Our previous two reports can be found [here](#))

What they had visited in the 18 months before lockdown

Which of these have you visited in the last 18 months?

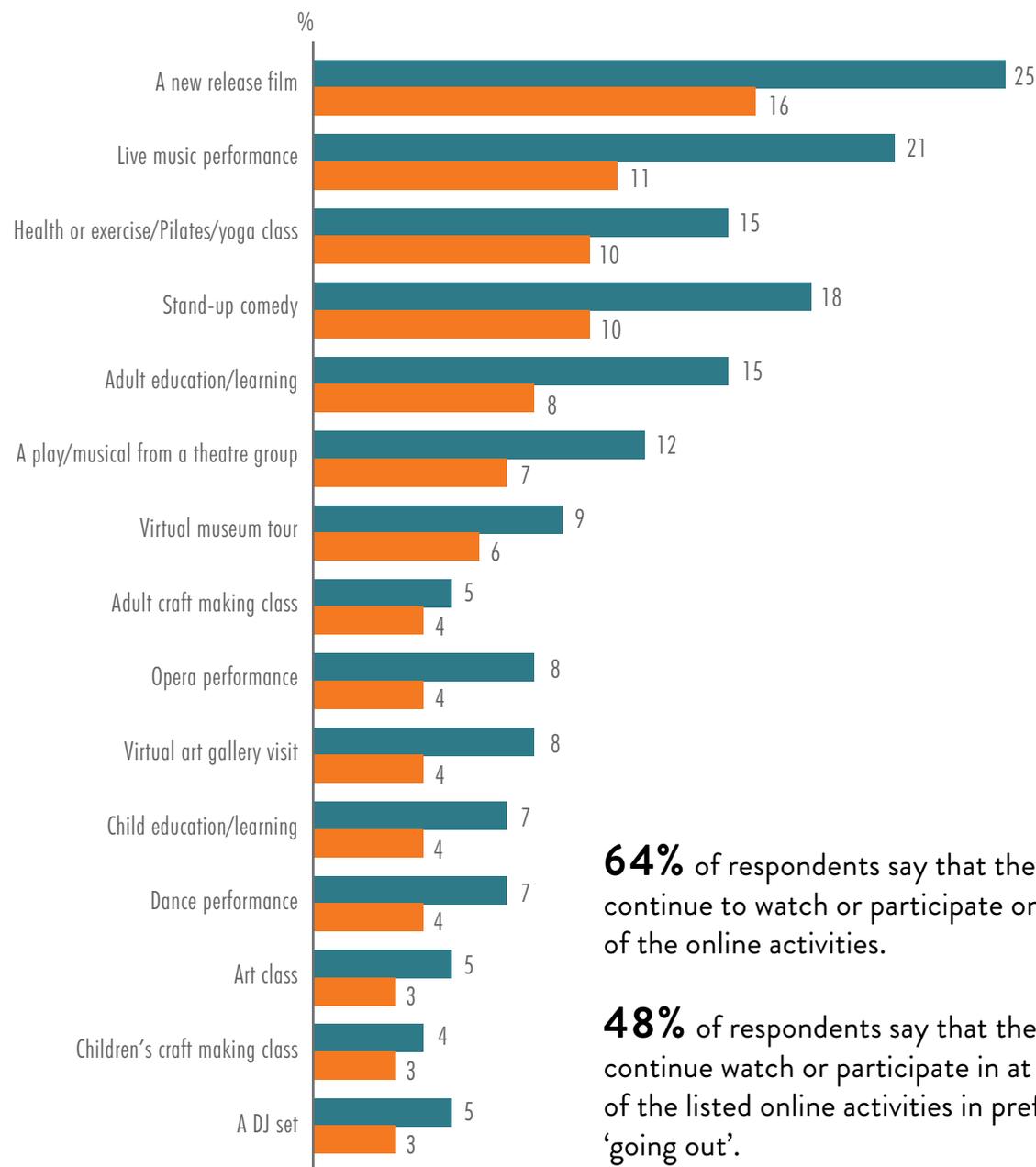


ONLINE VIEWING AND PARTICIPATION

The respondents were also asked about what they expected to continue to watch or participate in online after lockdowns were lifted and what they expected to continue to do in preference to going out to a venue or attraction.

■ Which of these would you expect to **WATCH** or **PARTICIPATE** in online even after venues and attractions have reopened?

■ Which of these do you expect to do online **IN PREFERENCE** to going out to a venue/gallery/performance venue/learning space when they reopen after lockdown?



64% of respondents say that they will continue to watch or participate online in one of the online activities.

48% of respondents say that they will continue watch or participate in at least one of the listed online activities in preference to 'going out'.

MEETING THE ONLINE OPPORTUNITY

ONLINE PRICING OPPORTUNITIES

We used a generic price model, asking respondents how much they would pay to continue to 'watch a play an opera, ballet performance or live band gig or do a class and so on' using 5 different 'per online session' prices; £20, £15, £10, £7.50 and £5.

In looking at the influence of price points on demand the assumption was made that if a respondent said they would buy at the higher price point they would also buy at the lower price point presented to them.

WHO ARE YOU TARGETING?

As expected, demand for online viewing and participation varied for the different price points and importantly there were significant variations by age, gender and life stage segments. This means that when a price for an online performance or engagement is being considered it is important to define who it is targeted at.

Here we can see the proportion of the potential audience who said they were 'likely to purchase' at each price point. On average 6% are likely to buy at £20, 7% at £15, 21% at £10, 21% at £7.50 and 39% at £5 per session.

| Per session cost | £20 | £15 | £10 | £7.50 | £5 |
|-----------------------|-----|-----|-----|-------|-----|
| Likely to pay to view | 6% | 7% | 21% | 21% | 39% |

Average price and demand curve



Now we can look at the revenue and demand implications for the different price points. For illustration we assume a potential market of 1 million viewers.

| | | |
|-------|--------------------------|--------|
| £20 | - 60,000 viewers paying | £1.2m |
| £15 | - 70,000 viewers paying | £1.05m |
| £10 | - 210,000 viewers paying | £2.1m |
| £7.50 | - 210,000 viewers paying | £1.6m |
| £5 | - 390,000 viewers paying | £1.9m |

Overall the optimum revenue is achieved at **£10** per session

Overall the optimum viewership is achieved at **£5** per session

MARKET SEGMENTATION - what different audience segments are likely to pay to view

Now we can look at optimum price points for revenue and volume by age, gender and life stage segments.

We can see the demand curve for each segment and how this compares to the overall average. In researching a specific product the segmentation analysis would also cover audience personas and relationship to the brand.

PRICE AND DEMAND CURVE - age segmentation

The price and demand curves for each age group are shown together with optimum price and demand points – the points at which revenue is maximized and how demand relates to this.

In all cases demand increases as the price declines and there are significant variances in the age groups.



OPTIMUM PRICE AND DEMAND – age segmentation

The price and demand curve shows how demand increases as price per viewing session decreases. It also highlights the optimum price and demand points for each of the age groups within our theoretical market of 1m people.

18 to 25 age group

- The optimum price point where revenue is at its highest for the age 18 to 25 age group is £10 per session
- The optimum viewership is achieved at £5 per session

26 to 35 age group

- The optimum price point where revenue is at its highest and the optimum viewership are achieved at the £5 price point

36 to 54 age group

- The optimum price point is £10
- The optimum viewership is achieved at £5 per session

55+ age group

- The optimum price point where revenue is at its highest and the optimum viewership are achieved at the £5 price point

OPTIMUM PRICE AND DEMAND – gender segmentation

The demand curves for men and women are shown in the chart below together with their optimum price and demand points – the points at which revenue and demand are maximized. Overall, men say they are prepared to pay more for their online experiences than women.



Women

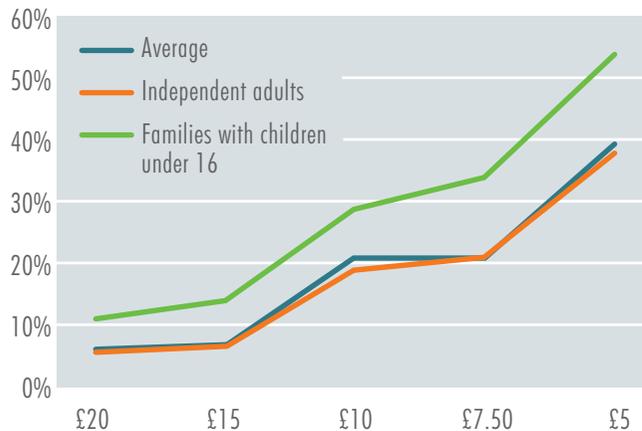
- The optimum price point where revenue is at its highest and the optimum viewership for women is £5 per session

Men

- The optimum price point where revenue is at its highest for men is £10 per session
- The optimum viewership for men is achieved at £5 per session

OPTIMUM PRICE AND DEMAND – life stage segmentation

The demand curves for two key life-stages; independent adults and families with children under-16 are shown in the chart below together with their optimum price and demand points – the points at which revenue and demand are maximized. Overall, families with children under 16 are prepared to pay more for their online engagement than independent adults.



Independent adults

- The optimum price point where revenue is at its highest and the optimum viewership for independent adults is £5

Families with children under 16

- The optimum price point for ‘families with children under 16’ where revenue is at its highest is £10
- The optimum viewership for ‘families with children under 16’ is achieved at £5

REVENUE OR AUDIENCE?

We have seen the impact of different price points on different audience segments. This highlights the importance of conducting pricing elasticity research, especially in new markets and with new products.

What we do not know, and this can only be left to speculation, is how many individual online sessions will be purchased at £20, £15, £10, £7.50 or £5 and this will differ according to the content and also may be influenced by subscription pricing. An enthusiastic live music fan may buy more than once a week, and an art gallery viewer only with each new exhibition.

There can be a basis for seeking to gain the biggest audience through a lower price point and introducing product additions or repeats price bundling or premium pricing opportunities once the viewer has shown brand or experience loyalty.

In the arts and culture sectors particularly, a supplier may simply want to engage online with as many people as possible with revenue as a secondary consideration. The Royal Opera House may have taken this course with their pricing policy.

ASK US ABOUT PRICE ELASTICITY AND SENSITIVITY TESTING

The price elasticity and price sensitivity testing you have seen in this report is something we have conducted for many of our clients across different sectors. Please do get in touch if you’d like to know more about our research studies and how this analytic approach can be applied to your project or how we can help test the development of experiences.

This survey was conducted by Vivid Interface in conjunction with Panelbase and using Snapsurveys Software.

For further information about Vivid Interface research or to ask about this consumer sentiment survey please contact:

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