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An Analytics-based Pricing Strategy for Sports Franchises

Maximize revenue and enhance fan experience through analytics

Are you leaving money on the table every season? Many professional sports franchises are, so you're not alone. That said, what can you do about it? As it turns out, plenty.

Despite management's best intentions, a large percentage of tickets are resold on secondary markets with significant premiums—or discounts—to face value. These secondary markets reflect the realities of professional sports: The value of a fan's experience fluctuates over the course of a season. An innovative approach is required to capture and "monetize" that value. Why not fill the seats for a low-demand game by selling tickets for less? Why not create your own resale market for a high-demand game, cutting out the middleman and pocketing the premium that a fan is willing to pay?

The path towards putting more money in your team's coffers begins with the first step: Developing a pricing strategy that fully leverages the revenue potential of a myriad of products and offerings, yet doesn't harm or detract from the fan experience. The first place to start? Ticket sales.

Beyond dynamic ticketing pricing, there are many other revenue-enhancing opportunities across the multiple revenue streams managed by a franchise. How could the club's facility be used for other events during the off-season? What's the optimum pricing portfolio for concessions and merchandise? When should promotions be pushed and sponsors courted? What is the right price for an association with your team?

As you imagine a more lucrative approach to pricing, keep these thoughts in mind:

The value of everything—from tickets to hot dogs, from merchandise to sponsorships—fluctuates in value throughout the season and even within the span of a game. Yet, many teams use fixed prices for these assets. Dynamic pricing is a powerful alternative that can drive significant increases in revenue. To make dynamic pricing work, you need to exploit two variables: the "moment of value" (which dictates what the amount a person is willing to pay for a service or product varies by circumstance) and the "customer experience" (which means that fans will pay more for a "bigger, better" relationship with your team and every moment of contact). The key to aligning two sides of the coin—what you charge and what fans are willing to pay—can come from using analytics to glean insights from the team's "big data" about customers' behavior.

Imagine this. It's the morning of game day. A customer goes to your team site and buys a ticket. A promotion pops up, allowing him to pay a little more to move to a better seat. As an incentive, you offer a digital coupon to join the team's loyalty club: He'll get "bucks off" on concessions and merchandise. One week later, you send an offer: A ten-day package and the promise of more benefits to come as the customer becomes a loyal fan.

"Big data" analytics answer the questions you need to ask

The big picture behind pricing is customer acquisition and retention: the goal is to draw customers (new and old) to a game and then keep them coming back. That's why a dynamic pricing strategy takes into consideration complex business issues (figure 1), as well as a deep understanding of variability. Here are five nuanced views of pricing decisions—views that are clarified by analytics:

- Fans aren't looking for transactions; they want an experience. How could you improve the value a fan will put on coming to a game (above and beyond the team's performance, of course)? That question should guide your pricing decisions. A deep understanding of customers' behaviors, including expectations, is fundamental to segment marketing, a key strategy in attracting and retaining customers. The right analytics put that understanding in reach.
- Dynamic pricing doesn't mean charging more for everything: It means charging the right amount for everything. Over time, the "right amount" boosts business and increases revenue. Finding the right amount requires insights about profitability, market tolerances, competition (not just from other sports teams), and customer behavior. Good analytical technologies are available for data mining; the secret is putting them to use in the service of strategies for the business, for marketing, and for pricing.

- Not all customers are the same: There's a big difference between a corporate outing and a family enjoying a night at the ballpark. A sixty year old grandfather and a twenty one year old college student also have different interests, wants and needs while attending a game. While everyone knows that (intuitively, if not analytically), why do sports clubs treat everyone the same? Analytics enable you to know what makes each customer segment tick, and then to use that understanding to shape marketing strategies. Would a loyalty program make sense? How about varying merchandising (and pricing) depending on the game?
- Promotional effectiveness matters, even if it can be hard to measure. How can you target the right customers (current and potential), with the right messages and offers, at the right times? Here, social media and mobile channels are having a big impact. Analytics give customer decisions visibility: What do your customers value? What is the best way to reach them? When are they most receptive to your offer? Does running a joint promotion—say with a pizza vendor—increase sales and/or profits?
- Analytics can also help you identify the appropriate pricing and contract structures for sponsorships, stadium naming rights, media rights, and non-game-day events. What will the market bear? You can't know unless you crunch the data.

From theory to practice: A dynamic pricing model

Developing a dynamic pricing strategy, and then putting that strategy into play, presents difficult challenges. It requires the harnessing of complex data, understanding of customer needs and preferences, and needs to be designed for the long haul—pricing decisions need to heighten the value of a customer relationship, not just revenue from a single ticket sale.

Here are the components behind the approach:

Understand the buying process and customer perceptions

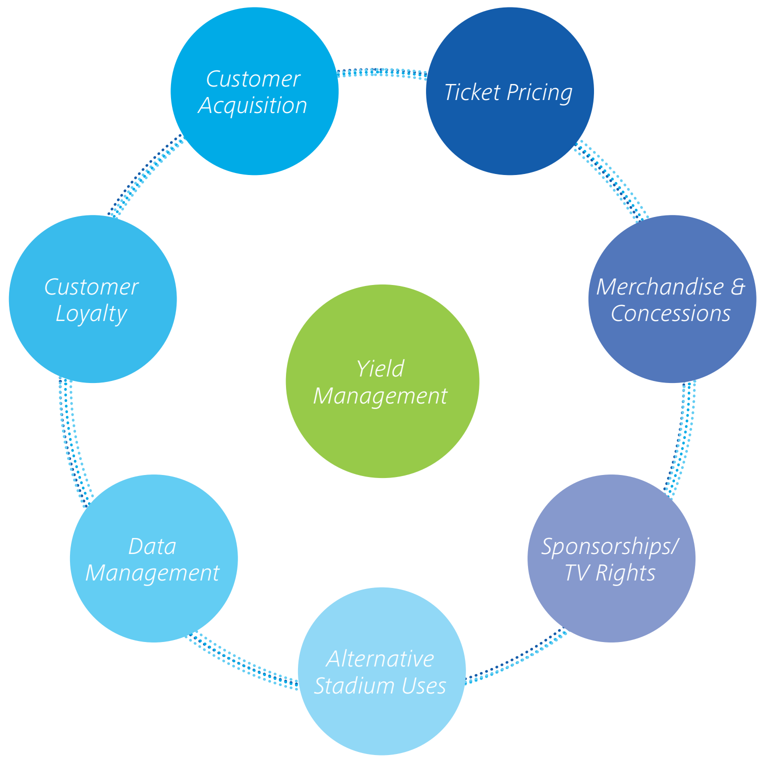
At the core, setting effective, fair prices is grounded in the customer experience. Deloitte uses many methodologies to quantify and qualify that experience, ranging from ethnographic research, which clarifies the view of the environments in which your customers make choices, to conjoint survey techniques, which allow us to identify the trade-offs fans make when considering alternatives. After we expose the motives of customers, we distill complex purchase-and-usage data to identify discrete circumstances when a fan's course could be affected. For example, a recent study of NFL fans found that women, who account for 45 percent the sport's fan base, think that NFL merchandise[1] lacks variety, a troubling finding given that women are the predominant purchasers of gifts and apparel.

Mine customer data to identify critical variables that drive demand

Your franchise has valuable data right at its fingertips, but may lack the ability to use it to generate management-relevant insights. Deloitte has deep Knowledge/experience in data mining and data representation methodologies to uncover customer purchase behaviors and patterns that lead to highly actionable revenue opportunities, such as determining whether and how much team performance influences a willingness to pay (especially compared to the stats of a visiting team).

1 Sports Business Daily, Oct 14–20, 2013 (p6)

Figure 1: Dynamic pricing connects the variables of yield management



Reengineer the business model to align pricing with the overall strategy

With a better understanding of how value is created (vis-à-vis the customer experience), you can design new and fundamentally better customer transactions. For example, you could consider selling seat licenses instead of tickets; this alternative model creates greater predictability in revenue streams for the stadium or arena.

Design the organization to execute a dynamic pricing strategy

Strategy can be nothing without control. From organization design to incentive strategies, from process engineering to performance measurement and management—franchises should embed dynamic pricing as a sustained capability that would differentiate your franchise and add value to stakeholders.

Implement a technology solution that generates revenue-optimizing prices

To support the data processing requirements behind dynamic pricing, franchises should identify the right partners, to ensure a pricing strategy that's supported, maintained, and continuously enhanced.

Figure 2: A holistic model for dynamic pricing

Analyze data

- Sophisticated algorithms analyze as many as 40 variables including secondary prices, opponents, and day of the week

Make recommendation

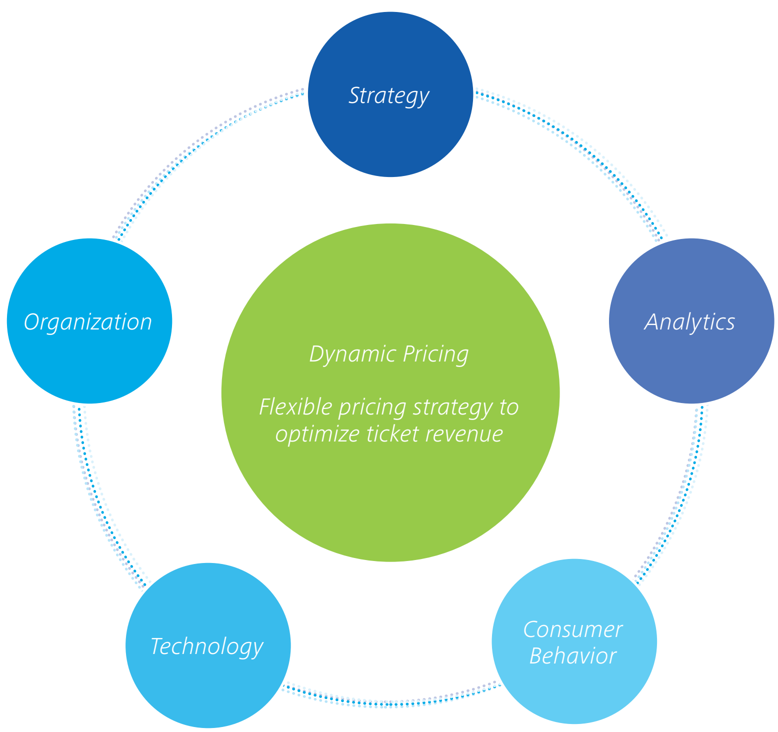
- Algorithm makes price recommendation at the section level
- Recommendations can change as often as daily based on supply and demand

Set prices

- A pricing committee meets regularly to review recommendations and set prices

Results

- Users see increases in revenue of up to 30% in high demand situations and 5–10% in low demand situations



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Getting started: Let’s take a look at the opportunities

We’d like to have a discussion with you around your pricing strategy and outline our approach for engaging fans and maximizing revenue through analytics. A rapid diagnostic—using your own data—is all we need to get started. To setup an initial meeting, contact:

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