

The price is right?

“Everything is worth what its purchaser will pay for it” (Publilus Syrus, *Sententiae*, First Century BC)

It can be a hard fact to face, but if you are selling something, by definition it is only worth what someone is willing to pay for it.

Understanding Value

The price someone is willing to pay is decided by the value they perceive in whatever it is you are offering. The starting point for pricing is therefore an understanding of how perceptions of value are formed.

Perceptions of value are almost unique to each individual for each product and a range of different prices is therefore essential to maximising either volume or value of sales.

However, you still need a headline price, or at least some idea of the range within which your prices should fall. So how do you decide the right price to offer something at, particularly if it is ‘new to market’?

Setting Market Prices

There are a number of ways of researching optimum prices. My company has developed an approach using detailed analysis of transaction data, and there are some very sophisticated primary research methodologies. But once again, however good your research, you can’t escape the market; in this case, what do other people charge?

Pricing textbooks tell us to set ‘market’ prices by valuing competitive differences. What do your competitors charge? What features of your product are better / worse than theirs? What is the value of those better / worse features? In the arts sector this begs a number of questions, not least: how to ascribe monetary value to features that are so intangible? I believe this is still a useful way to think about pricing what you do, but a better question to ask is ‘what’s the competition?’.

Price competition in the arts is very rarely direct (you don’t decide to go to the play at *Theatre B* rather than *Theatre A* purely on the basis of price). For some people attending some events, there is simply no substitute – “it’s that artist I want to see” – and in the case of a big star that means a high price, although a sense of ‘fairness’

does eventually kick in and they will reject a price if it is too high. Where there is no substitute, it is very difficult to know on what basis the 'fairness' of a price is assessed (maybe it is simply a matter of people's earnings and going out budgets – but then how many people budget their leisure expenditure in the age of easy credit?).

What's your competitive set?

For many other people (probably most arts attenders in the UK), rather than simply 'for the art', attending the arts is one of a number of options they may choose from as a way of meeting some other need: socialising, celebrating a special event, amongst many others. In this case there may be some level of assessment, or at least a reference point for 'competitive' prices. What are the needs that people are meeting when they attend the arts? And what, therefore, is the competition?

The Value of Price

There is a tendency for people in the arts to under-value what it is they produce, promote or sell. And that lack of confidence is reflected in the way we set prices.

The price of something can have a strong psychological impact on perceptions of value. Which is why in the UK, Stella Artois beer can advertise itself as 'reassuringly expensive' (although, interestingly, it's not that expensive!). What then, is the effect on value if you give it away?

Some price 'points' are simply stronger than others, but which? I've seen one book offering researched evidence that any price with the number seven in it will sell more strongly, and anything including the number three is pricing 'poison'. Other UK research suggests that there are certain price thresholds that affect levels of demand: £5, £10, £15, but also the £2.50 intervals (do these thresholds translate to other currencies, I wonder?).

There is very little material available on the psychological impact of the properties of the number itself, but much more on the subject of discounting: and mostly it agrees that indiscriminate discounting is very harmful to a business. I am increasingly coming to believe that an institutionalised lack of confidence, fuelled by the implications of a perishable commodity (in the performing arts, if you haven't sold it by curtain-up, you never will), has led us into a vicious cycle of discounting (stand-by, half-price booths, etc.) which may have fatally undermined public perceptions of the value of the arts. Discuss!

That being said, in the right circumstances, discounting does work, but only if you are clear about what you are getting in return, usually in the form of meeting your business objectives: encouraging trial, finding new customers, increasing frequency, greater volume, etc.

These are just some of the issues that will be covered in the AMA Speaker's Tour in June. If you'd like to know more, there's plenty of material free to download from our website (see below).

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