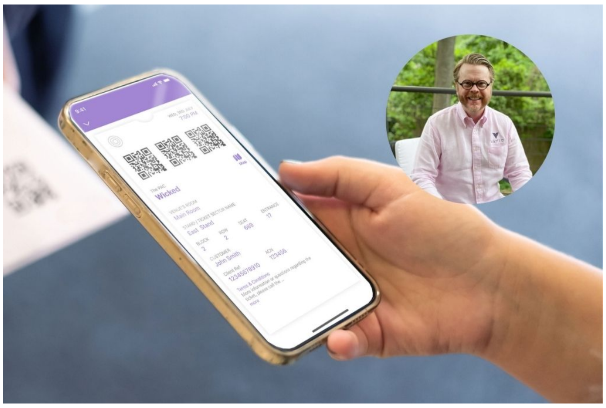
Establishing Ticket Prices Through Value: One on One With Sean Kelly

5 MIN READ



As live event organizations grapple with the dual challenge of increasing revenue and delivering value to their audience, the subject of effective pricing strategies inevitably comes into play. The careful balance between these two objectives can often hold the key to an event's success. To delve deeper into this intricate strategy, we had an insightful conversation with Sean Kelly, the Founder of Vatic. Leveraging a wealth of experience and expertise, Kelly collaborates with live event organizations to implement robust pricing strategies. His goal? To optimize revenue generation while preserving, and even enhancing, consumer value. This is a journey into the art and science of pricing in the live event industry.

Let's talk about the misconceptions about dynamic pricing. Before we even talk about dynamic pricing, shouldn't we start a level up from there?

Absolutely. Just broaching the subject of dynamic pricing in ticketing can quickly shut down conversations because it tends to push people's buttons, honestly. The result is that we rarely have discussions about the true worth of a ticket. What is its value? Over the years of working on dynamic pricing and evolving pricing strategies, I've come to realize that sometimes we jump the gun and need to take a step or two back before having that conversation.

That's a great point. Perhaps you can illustrate an example outside of the ticketing industry that people can better understand.

Yes! I have a perfect example – the iPhone. What is the worth of an iPhone? Or to be more direct, what did you pay for it? For most people, it's around $1,000. If you're considering the iPhone Pro 15, it's even more. But here's the thing, the actual cost to make an iPhone is estimated to be about $450. So why is there such a difference? Why did you spend $1,000?

Frequently, individuals express that their phone holds immense importance in their lives. They rely on it daily for numerous hours, considering it invaluable. Losing their iPhone becomes a source of worry as it hinders their ability to make calls, manage their calendar, answer emails, or access social media. The term “invaluable” is intriguing, as it suggests that its worth cannot be quantified. When people experience panic without their iPhone, it becomes evident why they view it in such a way. They simply cannot fathom life without it.

Now, let us delve into the value of an event at your venue. Is it worth the production costs? This is often the basis for budgeting. However, for those who choose a different approach, that is commendable as well. It is important to note that the expenses associated with staging an event do not solely determine its potential profitability.

That’s helpful context. So, what is the correlation between price and value?

There is no correlation between the two. This is why having a well-defined pricing strategy is crucial. We aim to peel away the layers and delve into the core question: what is it truly worth? One challenge is that organizations often underestimate the value of their live events. This is especially true for nonprofit organizations.

One theory is that they want to maintain a friendly image, consistently underpricing their offerings to create a warm and fuzzy non-profit atmosphere. Another theory is that they simply want to attract as many people as possible, which is indeed a commendable goal. However, there is a limit to how much you can achieve with a low price. The concept of diminishing returns comes into play, where lowering the price by even one more dollar won’t necessarily sell even one more ticket. So, how do we determine the right price? How do organizations set their prices? In most cases, it’s a combination of factors, but it’s primarily an iterative process. Pricing is often based on past experiences, with slight increases year after year.

That’s fine, except if you didn’t have the prices right in the first place, which means that you’re now just iterating off something that wasn’t accurate to begin with. Again, it gets back to how would you know?

Your passion for pricing and value is clear. Can you share a story from earlier in your career that you feel illustrates the problems we have in the industry and how you are helping educate and evolve the market?

Let me take you back to 2019 when Vatic embarked on a journey with the New York Philharmonic. During the onboarding process, I inquired about the highest-priced ticket they had ever charged. Their response: $175. Curiosity piqued, I delved further, questioning the reasoning behind this specific price point. Their answer was simple: it was what the market could bear. Intrigued, I drew a comparison to the nearby Hamilton, where the highest-priced ticket soared into the $900’s. Now, I’m not suggesting that the New York Philharmonic should necessarily adopt such lofty prices, but it became clear that there was room for growth between $175 and $900.

That’s how our collaboration with the New York Philharmonic began. We embarked on a project centered around Messiah, which proved to be a resounding success. The top ticket price for the Saturday performance, a sell-out event that continues to captivate audiences every year, exceeded $250. This was an enlightening moment for us. Suddenly, the barrier we believed existed, the highest price the market could bear, turned out to be inaccurate.

Empowered by this newfound knowledge, the New York Philharmonic started applying this lesson to future concerts throughout the season. One notable occasion was a concert weekend featuring Dudamel, their newly appointed music director. Higher prices were set for Dudamel's performances as they embarked on a journey to decipher the true value of their tickets and chart their course ahead. However, their progress was abruptly halted by the arrival of Covid-19, bringing everything to a standstill.

Over a year later, in the spring of 2021, the New York Philharmonic returned to the stage. Geffen Hall, their usual venue, was undergoing extensive renovations from the ground up, necessitating a shift to other venues that bore little resemblance to their familiar home. With a reduced seating capacity of a thousand, the concept of curated subscription packages, or same-seat subscriptions, became unfeasible. Instead, they introduced "choose your own" subscription packages, and entrusted Vatic with dynamically pricing them. We sought to explore whether the same variance observed in single ticket prices would manifest in the realm of subscription tickets.

Unsurprisingly, our findings revealed a significant increase of over 50% in what patrons were willing to pay for these subscriptions. The results were truly remarkable, breathing new life into the notion of subscription offerings.

Fascinating. It's a relief to hear that even prestigious organizations like the New York Philharmonic can struggle with appropriate pricing. Speaking of subscriptions, this is an area of significant change in the industry right now. Old models are being tested as consumers are less willing to commit and put a premium on flexibility. Assuming organizations can design for that, how are you seeing pricing evolve with subscriptions?

Among all ticket types, subscriptions are the most fixed. Most subscription packages lack dynamic pricing, especially when it comes to seating. Year after year, the only option is to increase prices and hope for the best. It all comes down to the concept of exploring and articulating value. You might be thinking, "That's all well and good for the New York Philharmonic, but I work for a different organization." Well, here's a revelation: for your customers, you are the New York Philharmonic. They care just as deeply about your organization as customers do about the renowned institution. We often find ourselves comparing our smaller, less centrally located organization with budgets one-tenth the size to those larger, more prominent organizations. But we must remember that we are not "less than."

However, your customers perceive you differently. They view each of these individual organizations as indispensable and significant to their lives. They genuinely want to support them, but they won't pay more than what is asked of them. So, how do we move forward? How can we accurately determine the value of our offerings to our customers? Well, the answer lies in the fact that accurate assessment is indeed possible. It's not just a matter of magic; there is a way to achieve it. And yes, our tickets are worth more than we might think. We have worked diligently with various clients, and without fail, we've witnessed substantial improvements in their average ticket values. We've taken great care to ensure that our assessments align with the actual buying behavior of their patrons; if we notice a decline in purchasing activity, we adjust the price accordingly to avoid going too far. However, all of this leads us to an essential question: how can we approach such a challenging conversation? We understand that discussions about dynamic pricing or raising ticket prices can be tough. So, we encourage you to take a step back and consider having just one conversation.

This conversation you're referencing. It's about change management within the organization, isn't it?

Certainly. Initiating a difficult conversation can be challenging, but I encourage you to consider starting one. The key to success lies in ensuring that this conversation, regardless of who initiates it, possesses the same level of quality. Think of it as a secret ingredient, which we will delve into shortly. However, before we proceed, let’s touch upon some logistical aspects. Shall we? First and foremost, identify the person with whom you wish to have this conversation. It’s important to note that you don’t need to engage everyone in a staff meeting and announce, “Let’s discuss value.” This approach is unlikely to yield positive results due to the influence of groupthink. Remember, people have been following established practices for quite some time, making them resistant to change. Instead, focus on having a one-on-one conversation, ideally starting with an ally. This individual could be the head of finance, as I find such discussions fruitful due to our shared interest in mathematics. Alternatively, it could be your boss or a trusted colleague in your department. The key is to find someone who already recognizes the significance and necessity of the work you are doing for the organization, and then engage them in a discussion about value
and pricing.

Getting by-in internally is a challenge, but it sounds like it’s critical to successfully adopting a dynamic pricing mindset that better attaches the right value to your events. Assuming you can get there, what’s next?

The key question is how to determine the right price. This is the focus. How can one obtain this knowledge? The purpose of the discussion is to explore and inquire. Initially, have this conversation with your ally, then engage with other stakeholders, such as finance and others. Continue this cycle until all relevant parties are involved for progress. Emphasize that you should only involve essential individuals. If you don’t need approval from the head of development or the artistic team, avoid wasting their time. They have more urgent matters to attend to. Now, consider gathering additional data. What if you could design a limited trial to validate your hypothesis? Would the organization support it? If you commit to presenting the parameters beforehand and providing a post-analysis report regardless of the outcome, I’ll share the test results with you.

Can you generate sign-ups for that? Let’s move on to the next point: what’s the hypothesis? Here, we’re getting closer to what makes a conversation successful. Because when it comes to live event organizations, there’s one thing everyone seems to have an opinion on: ticket prices. Your CEO, the head of development, the board—everyone thinks they know what the price should be. And it’s important to acknowledge that their opinions aren’t wrong; they’re just right for them. It’s a crucial distinction to remember as we continue. So, whose opinion really matters? The ticket buyers. But here’s where your secret weapon comes in. In these conversations, it often turns into an “I’m right, you’re wrong” situation. But the truth is, you aren’t entirely right either. Your opinion on pricing is just that—your opinion, and it’s right for you. But it may not be the right answer to the question you’re asking.

So, who has the answer?

Your customers hold the key. Successful value-driven conversations aren’t about proving oneself right and others wrong. This poses a challenge within live event organizations where everyone considers themselves experts with strong opinions and a sense of ownership. Silos are constructed, and we’ve all experienced this phenomenon. Falling into this trap is easy but must be avoided at all costs. Why? Because this is not an “us versus them” scenario: marketing versus artistic, ticketing versus development. You have one unified group of patrons who view you as a single organization, not separate domains.

So, let’s establish the right framework. Maybe you’ve gathered valuable data, which is always beneficial. The key to successful conversations lies not in convincing others of your rightness and their wrongness. Instead, it lies in convincing them that you haven’t truly listened to the one group of people who are always right: your patrons. Within organizations, an echo chamber of expertise has emerged, which is not surprising. Our mission is to act as arbiters of taste. We're confident in our choices of titles, artists, and more, including pricing.

Can you share how you first started using this framework in real-life scenarios?

When I developed my first algorithm, I worked for a midsize theater company in California. We presented a holiday production called "A Civil War Christmas," which surprisingly sold out early. Drawing from my experience at Starbucks, I realized that we had likely underpriced our tickets, leaving potential revenue on the table. Regardless of the organization's size, every dollar matters, especially for mid-sized theaters like ours. To address this, I crafted and presented my dynamic pricing algorithm to another organization in Seattle. However, they preferred the traditional approach of raising prices by a fixed amount when reaching capacity thresholds.

Despite my efforts, I couldn't persuade them to try my innovative algorithm. In a last-ditch attempt, I proposed a test where we implemented their method and closely monitored the results. This allowed us to objectively evaluate its effectiveness and determine the best path forward. After analyzing the data, we found that their method only resulted in a 2% increase in revenue, barely keeping pace with inflation.

Armed with this data, I finally convinced them to try my algorithm, which ultimately generated a 10% increase in revenue for the next show, amounting to a quarter of a million dollars. This experience made me realize the significant impact such algorithms can have. To implement a similar test in your organization, select 1 or 2 top-selling performances, define parameters, and communicate the changes upfront.

When that occurred and you increased prices to keep up with inflation, what kind of response did you receive from the customers? Was there any noticeable pushback? Did the regulars reach out, questioning the situation? Or did it simply go unnoticed?

Expanding our reach to all our clients across the universe, there are instances when we encounter organizations that are new to dynamic pricing. Some may express concern, exclaiming, "I've never paid more than $55 for a ticket! How can I justify the current price?" However, such cases are few and far between. On average, organizations receive around two complaints, as most individuals have a solid understanding of dynamic pricing. They have experience purchasing airline tickets and booking hotels, so they quickly grasp the concept. We often underestimate how swiftly they adapt. This doesn't imply that there is no resistance, but in general, it represents a minuscule portion of the buyer population.

All this is helpful. What advice would you give to our readers who want to move forward? What's the first step to take if you want to implement dynamic pricing at any organization?

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