

# Case Study: Harmonising Price and Demand at Pitlochry Festival Theatre

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## The Situation

Based in a small Scottish town halfway between Edinburgh and Inverness, Pitlochry Festival Theatre (PFT) houses a 540-seat auditorium, serving both a strong local and thriving tourist market. The main season at the theatre runs from May through to October and consists of six in-house productions running in repertoire throughout the summer, giving rise to the tagline ‘see six shows in six days’.

Historically, the six productions have always been drama, ranging from popular Stoppard plays to challenging new writing to traditional Scottish work, but in 2009 PFT decided to put on a musical for the first time. The Scottish-based *Whisky Galore – A Musical!* was a resounding success for the theatre, pushing revenue for the summer season above the £1.1m mark for the first time, up 16% on the previous year. The musical was now firmly established at PFT.

In fact, *Whisky Galore* was so successful that towards the end of the run, nearly every show in the final few weeks was sold out. At the end of the 2009 season, the main problem they faced was how their 2010 musical, *Kiss Me Kate*, could capitalise on the success of *Whisky Galore* without undermining the value of the other five shows.

## The Theory

As any good economic textbook explains, for any given product, there is always going to be some disagreement about the price: some people may consider a product as good value for money, while others may consider the same product too expensive, or too cheap. A product with a single price can discourage some potential customers from making a purchase because the price is too high, and it can also miss out on additional revenue if there are customers who would have been prepared to pay more than the price on offer.

By selling a product at a range of prices, a retailer is able to take advantage of differences in perceived value and effectively serve demand at both the lower and the higher price points. Most theatres are already enjoying the benefits offered by a range of prices, varying their prices according to different levels of demand, driven by the day of week, seat location, time of sale, party size etc. By using this kind of differential pricing to take advantage of the stronger demand for certain nights and certain seats, theatres are able to effectively maximise their revenue and still offer a range of prices to suit the range of demand.

The difficulty is finding the right balance: too many high prices and demand may end up leaning towards cheaper prices and a lot of the expensive inventory going unsold. On the other hand, not enough high prices and demand may end up leaning towards the more expensive prices and an opportunity to increase overall revenue is missed.

## The Implementation

In 2009, PFT priced their repertoire according to day of week, time of day and which of the three price bands you sat in within the auditorium. Of the 540 seats in the auditorium, nearly 50% were sold as top price. The pattern of demand for any show, regardless of day of week and time of day was always for these top-price seats. They were always the first to sell and nearly always sold out before customers started booking the cheaper seats in the lower price bands.

So if most customers are choosing top price tickets, aren't there going to be some that would be prepared to pay more? By increasing the prices for a consistently sold out, fast selling section of the auditorium, PFT should be able to maximise their revenue and still remain in line with customer demand.

But how far can your prices be pushed and for how many seats can the price be increased? By increasing the price of a limited number of best-selling seats that reflect an actual difference in value compared to other seats in the auditorium (i.e. those with more leg room and which offer the best view etc.), the risk of over-pricing is minimised and demand can be effectively monitored. It was decided that 6% of seats met this criteria and could be priced up. To maintain a consistent message about value, both of the repertoire and of the seat itself, the new section was available for all productions.

In addition to this new section of 'premium' seats, prices were also raised across the board. Based on *Whisky Galore*, demand for the musical warranted additional price differentiation, so prices for *Kiss Me Kate* were increased beyond the increases for the other shows.

## The Result

At the start of the 2010 season, sales patterns revealed that there was still strong demand for the top price seats; so the new prices had not discouraged people and in fact sales were up almost 30% against 2009.

Sales for *Kiss Me Kate* were particularly strong. Top-price seats were still selling very quickly, as they had in previous years, but the small section of 'premium' priced seats, whilst still high in demand, were not completely sold out. So whilst the new top prices had not forced people to choose cheaper seats, the 'premium' priced seats in the auditorium were priced just right - slightly above the threshold most people are prepared to pay, effectively creating a balanced auditorium with a range of prices perfectly suited to the PFT market.

Given that PFT typically has a late booking market (about 67% of all bookings are made once the season is underway) this meant that there were still a handful of the best seats available for late bookers (who typically buy more expensive seats). By the end of the season, the 'premium' section was consistently sold out, helping to take revenue for 2010 above £1.2m, a 9% increase on 2009.