**Sports ticket pricing – an example of strategic pricing**

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Over the [last few posts, Lee Ann](http://blogs.sas.com/content/hospitality/2013/07/12/pricing-as-a-strategic-tool-part-one/) has been exploring how to marry business strategy with day to day pricing decisions.  This week, I’m going to take this discussion in another direction by describing how pricing decisions are made, and the importance of strategic pricing in another industry – sports.  Specifically, I’ll be exploring sports event ticket pricing.  Sports ticketing is a complex subject, of course, and I’ll only be touching the surface of it.

Professional sports event ticket pricing is a complex business because the make-up of the teams change constantly, and therefore, so does the “competitiveness” of the product.  An “off” year can have a significant impact on ticket sales – but so can a championship run.  On top of this, individual game characteristics such as opponent, day of week (for sports that play more than once per week), and weather (for sports that play outdoors) can impact the value of an individual game.

**Buying Sports Tickets – the “Rules of the Game”**

Sports tickets are generally purchased in one of three ways:

**Season Tickets** – Season tickets are offered for sale from the team or league prior to the beginning of a season.  In fact, it is not unusual for season tickets to go on sale during playoff season, and before the schedule of actual games is known.  Teams often have a close relationship with their season ticket holder base (I’ve met more than one sports executive who claimed that he knew the face and name of nearly every season ticket holder) – and appreciate the high level of “engagement” held by the season ticket holding fan.  Because of the high level of commitment that they make to a team, season ticket holders expect to get the highest discount on tickets – and become vocal when they feel that better offers are made available in the wider market.

**Individual Tickets** – Individual tickets are offered for sale by the team or league after season tickets.  The “face value” of a ticket is normally based on the individual ticket sale price, which is set prior to the season, and is typically the same for all games.  However, because (as noted above) the real value of any individual game can vary, this creates inefficiency – some games become very high demand (and can sell out), while others sell poorly.  The team can deal with the “distressed inventory” of tickets for these low-demand games through the use of promotions (typically in conjunction with corporate sponsors or local charities) – but run the risk of raising the ire of the season ticket base if promotional deals become so attractive that the season ticket holders feel that the promotional offer starts to devalue their season ticket purchase.

**The Secondary Market** – The “secondary market” is the general term for the marketplace in which sports tickets are resold.  These are tickets that may have been purchased originally as season tickets or as individual tickets, but in either case, are now being resold to a second owner.  Now, there are legal implications regarding the resale of tickets, and certain practices may be prohibited locally.  For example, on-site “scalping” is illegal in many states in the U.S., and selling tickets above face value is prohibited in some countries, as well.  In the UK the resale of football tickets is illegal unless the resale is authorized by the match organizer.  In general, though, the internet has led to greater liberalization on this front, and today a simple search on “sports tickets” will show you many, many options for purchasing tickets from the secondary market.

**The Strategic Decision**

What makes sports ticket pricing so interesting is the dynamic that exists between the strategic decision (how to price season tickets), and the more tactical decision of how to price individual tickets, and what in-season promotions can be run.  Price the season tickets too high, and the team’s flexibility with promotions can be greatly restricted – impacting the ability of the team to generate revenue on “off peak” games.  Price the season tickets too low, and the team will soon find itself with significant competition from the secondary market (due to speculative buying and resale of season tickets), and inhibiting the team’s ability to generate revenue from individual tickets.

It is also important to note that most season ticket holders become speculators at one time or another – either they have tickets that they cannot use or the value for their tickets become so high that they would prefer to resell the ticket for a tidy profit rather than attend the game.  The ability to do either of these things is considered sacred by many season ticket holders that would not be able to afford the season package without them.  In addition, outside speculation (by brokers and professional ticket resellers) will occur on the secondary market whenever significant inefficiencies in ticket pricing (i.e. significant difference between purchase price and market value) are perceived to exist.  So, it is not unusual for speculators to buy and hold individual tickets for teams best games (against conference rivals or last season’s champions, for example), and sell them at a tidy profit later.

Interestingly, most teams prefer to err on the side of selling more season tickets – even at the potential cost of overall revenue.  The reason for this is twofold:

1. The Bird in the Hand: There is a lot of uncertainty at play in sports: injuries, bad luck, or a bad economy can impact or even ruin profitability.  Therefore, many owners prefer the certainty of a season-ticket-holding base to the uncertainty of a (potentially higher-revenue) set of individual ticket sales.
2. Customer Lifetime Value: It is a widely-held belief that the more a fan attends games, the more emotionally “involved” the fan becomes.  And, as [this Penn State study illustrates](http://research.smeal.psu.edu/news/avid-sports-fans2019-passion-for-the-team-often-translates-into-revenue), more avid fans spend more money on tickets, merchandise, concessions and so on.

Of course, the degree to which a particular team can “go high” on pricing or should “stay low” is also impacted by a variety of other factors, including:

* Performance in the most recent season (a rise in season ticket pricing following a strong playoff run is almost expected)
* Player movement (retirements, drafts, and free agency): All of these factors influence team makeup – which directly influences expected team performance… and winning sells tickets
* Coaching: Similar to new players, a team bringing in a well-known coach is often expected to produce more wins

**Changing the Rules of the Game**

Recently, some leagues and teams have experimented with a couple of methods for dealing with the tension that exists between season and individual ticket pricing, and capturing a greater share of the value from their tickets.  These approaches include:

**Variable Face Value** – With this approach, the team varies the face value of the tickets based on what the team believes to be their relative market value.  So, very desirable games have a higher face value, and less desirable games have lower face values.  This approach gives the team more flexibility in dealing with “distressed inventory”, while protecting the value of high-value games, and capturing value that is otherwise lost to speculators.

**Dynamic Individual Ticket Pricing** – With this approach, the team varies the price of individual tickets based on market demand – and can change the price from the initial face value.  Dynamic ticket pricing again gives the team flexibility in dealing with “distressed inventory”, while protecting the value of high-value games – but requires more complex systems to determine optimal pricing and manage ticket prices.

**Participating in the Secondary Market** – Given that they have the most information, it should surprise no one that teams themselves would consider buying and reselling tickets on the open market.  Some teams and leagues have even created their own ticket exchanges.

**Applying Analytics to Season Ticket Sales** – Here in the U.S., season ticket sales typically make up the majority of ticket sales for major league teams – so approaches that focus on individual ticket pricing can have limited (or even no) value.  However, [as illustrated by the Orlando Magic](http://www.sas.com/success/orlandomagic.html), by applying analytics to season ticket sales, teams can identify “at risk” season ticket holders, and even model the impact that price changes may have on season ticket sales.

From an analytic perspective, the approaches that one would use to deal with the first three approaches above are similar to the methods used by typical revenue management solutions in hospitality.  The fourth approach, though is quite different – and maybe that is part of the reason that I find that line of work particularly interesting.  Analytically speaking, segmenting season ticket holders and anticipating their propensity to renew at an individual ticket holder level has more in common with typical [marketing analytics](http://www.sas.com/software/customer-intelligence/marketing-analytics.html) than it does with revenue management analytics.  And, for teams whose revenue streams depend heavily on season ticket holders this type of analytics can have a lot of “bang for the buck”.