

Applying Dynamic Pricing in Sports

The third of our #TTF16 Discussion Papers looks into the effectiveness of Dynamic Pricing in sports – and asks why UK sports teams have been slow to adopt. *Paul Haines* investigates with the San Francisco Giants and Derby County FC

WHAT IS DYNAMIC PRICING?

The concept of Dynamic Pricing is a familiar one to all of us. Every time we buy a flight or a hotel, we see Dynamic Pricing at work – if we book well in advance then prices will be at their lowest. But if demand is high or you leave your booking until the last minute, then prices go up.

“When Barry Bonds made his 756th home run and broke the all time record... that was the light bulb moment when Stanley realised a US\$10 ticket could sell for US\$50”

Whilst it's common in the travel sector, Dynamic Pricing is still a relatively new concept within the sports industry and was first pioneered in the USA by MLB's San Francisco Giants. Back in 2007 the Giants Vice President of Ticket Sales and Services, Russell Stanley, was attending a conference in Las Vegas when he was approached by a Texas University student called Barry Kahn.

“He kept trying to convince me that all tickets should not be created equal,” explained Stanley. “A game on a Friday night wasn't the same as a game on a Saturday, even if it was the same opponents. There were also different promotions, different pitchers and different giveaways. I got the idea but I struggled with it as a working concept and being a typical conservative ticket guy I thought the sports world just isn't ready for this. So I said look, you're probably onto something so let's stay in touch.”

With the seeds of the idea planted, it took a piece of sporting history to convince Stanley that Dynamic Pricing could revolutionise ticketing at

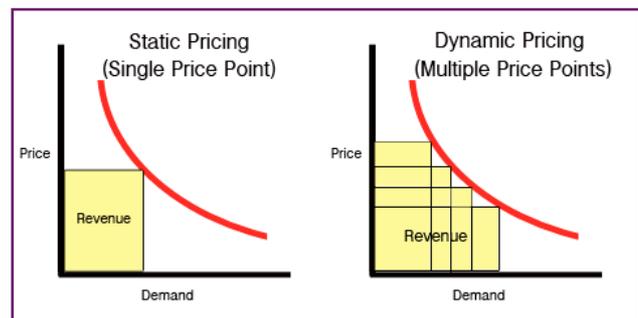


Fig 1: The theory = Maximise yield along the curve

the Giants: “When Barry Bonds made his 756th home run and broke the all time record it was at a Wednesday night against the Washington Nationals, which was about as soft a game as you could get. Yet the demand for those tickets was incredible. I call that my light bulb moment, I looked at that night and thought a US\$10 ticket could have sold for US\$50. We wanted to take advantage of that great opportunity”.

EARLY TRIALS

Stanley went back to Kahn and the following season they ran a Dynamic Pricing trial on a block of 2,000 seats.

Stanley recalls: “Using his software we were able to generate another half million dollars and that's because we were able to maximise revenue on the hot games and also follow what the market would take on the soft games. So if we thought a ticket was worth US\$8 but the market would only bear US\$5, in the old days we just had to ride it out but now we could adjust the price and make the sale.”

In 2010 Stanley and the Giants introduced Dynamic Pricing across the entire Ballpark. It proved to be a move that would change the landscape of sports ticketing in the USA for good.



Credit: Golden Gate Sports

“...Since the introduction of Dynamic Pricing the Giants have sold out in 407 consecutive games, and counting”

By the end of the season the Giants had increased ticketing revenue by a staggering US\$8 million and seen benefits in other areas too.

“If we have 2,000 tickets to sell two weeks out from a soft game, we bring the price down and we will sell out,” outlined Stanley. “But if those 2,000 seats were left empty, you wouldn’t get any food and beverage spend, so we’re also able to increase that revenue. It’s also about getting people into the park. It’s a lot more fun and exciting when it’s full and it makes people want to come back.”

That ability to sell out is clear in another impressive statistic - since the introduction of Dynamic Pricing the Giants have sold out in 407 consecutive games and counting.

One key part of this success has been the flexibility of the pricing software and over the years this has been constantly developed and honed to take advantage of all the game day variables.

AMERICAN ADOPTION

“Every night the software gets a data feed from the last 24 hours of ticket activity,” explains Stanley. “It then takes that activity and makes price recommendations based on what is selling and what’s not. As you get closer to the game we include other data points such as weather and the named pitchers because people really want to see the big name pitchers. We also look at both the Giants and the opposition’s recent record - if we’re on a five game losing streak, prices will go

down and if the opposing team is hot and we’re hot, then it drives prices up.”

As a system, it has also proved easy to implement and run on a day-to-day basis: “Twice a week we’ll have a meeting and look at what’s going on and in an hour we can change 1,000 ticket prices based on what the system is recommending. At the moment we still look at every recommendation and we can still make our own adjustments but 80 per cent of the time we are accepting what the system is telling us and we expect it will be fully automated in a couple of seasons’ time.”

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Since its introduction by the Giants, the implementation of Dynamic Pricing in the USA has boomed, with 26 of the 30 major league baseball teams using it in some form by 2013 along with a third of basketball teams in the NBA. With fewer fixtures in their season and a higher number of season ticket holders, American Football has seen a slower uptake and whilst some teams in both the NFL and college football have recently introduced it, the University of Michigan’s Wolverines - who play in the biggest stadium in the US - are one big team which has recently dropped the system.

EUROPEAN CAUTION

Whilst the nature of the 'football' is different, a similar pattern has also been seen in the UK. In 2012 three clubs in the second tier Championship, Cardiff City, Bristol City and Derby County, all trialled Dynamic Pricing. Three seasons later, only Derby County still utilise the system.

"... the tried and tested software that worked in the USA wasn't ideally suited to the UK market"

"Initially we didn't do it very well if I'm honest," explained Brandon Furse, Head of Ticketing, Analytics and Technology at Derby County. "We used to set our match pricing by categories, which is the traditional football method and then use Dynamic Pricing to increase the price dependent on demand from there."

Furse found the tried and tested software that worked in the USA wasn't ideally suited to the UK market, so for the second season he brought in a local team of data analysts and developed the software in-house.

"We looked at all the historic data - what sales were done at what prices and how far out from games. We also included data on local derbies, evening games, the weather and our position in the league table."

It wasn't just the software that didn't translate well across the Atlantic: "The way our market works is different and there were also some legal differences as well," said Furse. "Their data protection laws are not as tight as ours so there's a lot more they can do regarding digital fan targeting for example."



"Also, they don't have the same ticket touting laws that we have here so they have to compete with the secondary market and we don't," explained Furse. "At Derby County FC we have control over all of our tickets and whether a secondary reseller has access to our tickets or not. There is a lot more price competitiveness going on in the USA but here no-one else can sell Derby County tickets. It's more controlled in the UK."

"Initially there was a lot of concern from the season ticket holders that they were being undercut"

One area that has proved crucial both in the USA and the UK has been the importance of clear communication with season ticket holders.

"Initially there was a lot of concern from the season ticket holders that they were being undercut," explained Furse. "But we made a promise to them that we would never sell a ticket in the same age category and in the same seating block for less than they had paid."

Communicating the actual amount fans have paid for each match was the most important aspect of the strategy and was fundamental to Dynamic Pricing working.

"If your season ticket is £230 then a season ticket holder would say, well that's £10 for each game. So I had to try and educate them and say, well no, that's not right. For the big games, like the local derby against Nottingham Forest, that ticket is worth £15 and then for some other matches midweek you've only paid £5. The big difference now is that I can go on sale with a match ticket for £6 for those games and for the higher demand games like Forest they are from £16. So I'm always keeping the season ticket price sacred."

That communication has clearly worked at Derby, with fans kept fully informed with up-to-date pricing on the clubs website and frequent marketing emails. “I can’t recall the last time I received a question or complaint from a season ticket holder,” added Furse.

“We get some very good PR because we have that lower price starting ticket, and we have the highest attendances by some margin in the Championship”

Despite being the only club still using it, Furse is confident Dynamic Pricing is here to stay in the UK: “There is a future as far as Derby County are concerned and it works very well for us. We are fair, we get some very good PR because we have that lower price starting ticket and we have the highest attendances by some margin in the Championship. Performances have improved on the pitch but Dynamic Pricing has certainly helped increase revenues and attendances enormously”.

OVERCOMING THE FEAR FACTOR

With such a positive experience, the surprise is that no other football clubs in the UK have followed Derby County’s path. “A lot of other clubs have come to us and looked at how we do it and they have gone away and said they should do it,” continued Furse. “Why haven’t they implemented it? Maybe football is set in its ways in certain aspects. A lot of people don’t see the need to change and many clubs say ‘we do things our way and that’s the way the fans like it’. There is a fear factor with change.” ■

ABOUT THE AUTHOR

Paul Haines is the latest addition to the Ticketing Technology Forum team at Xperiology. He’s a TV Producer and Broadcast Manager with 20 years’ experience of planning and delivering major sports broadcasts worldwide. He’s held senior broadcast positions in many sports including Formula One, the 2012 Olympics, 2014 Commonwealth Games and the America’s Cup. But he also has a passion for all things stadium-related and enjoys writing for the leading sports business publications. ■



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