

SF Performances & Lectures Program Season Pass Evaluation

**Value-in-Use Pricing
Break-Even Model
Internal Rate of Return Model**

Ana C., Elisabetta C., Jeannine L., Nathaniel B-M

July 12, 2014

Background

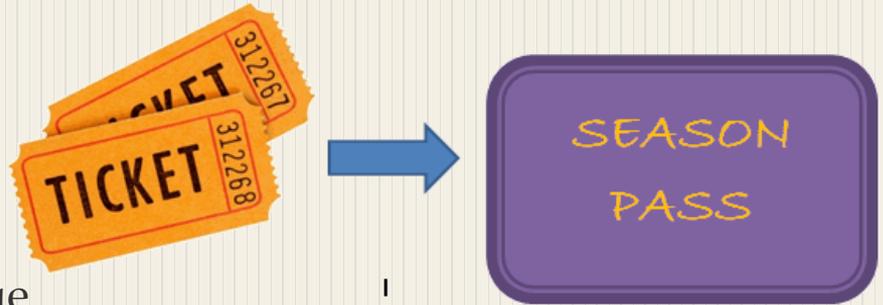
- The SF Performances & Lectures program, offered by one of the Bay Area's premiere cultural centers, features a season of more than 100 events with world-class speakers and artists.
- Individual tickets typically range in price from \$20 – 25.
- The current subscription model offers discounts to patrons who buy tickets to five or more shows.



Background

SFPL is considering a new product – an annual, unlimited season pass that would replace subscriptions.

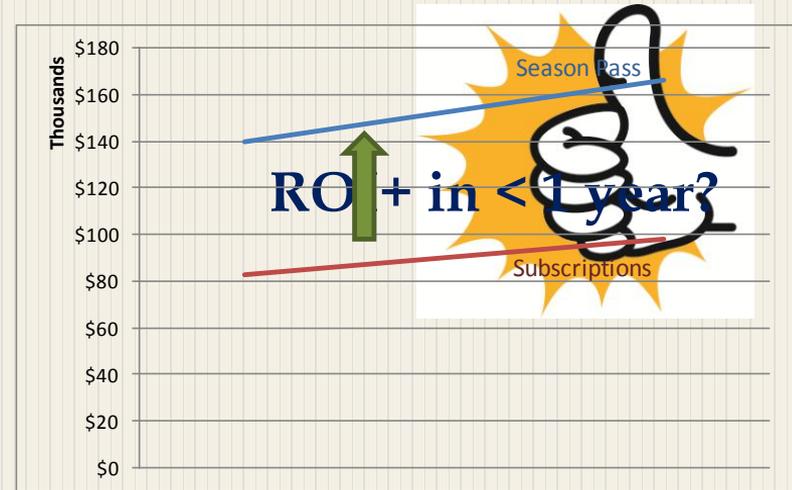
- Easier for regular patrons to use
- Gives patrons a sense of belonging
- Makes attendance more predictable
- Full shows create a perception of value
- Clear point of competitive differentiation
- Encourages donations and sponsorships



Background

For this to succeed, we need to ascertain that we can:

- Offer the season pass at a suitable price
- Demonstrate value to the customer
- See quick positive returns on the initial investment
- Improve cash flow



Goal: Recommend a price point to the CFO

1. What does the market tell us about pricing a season pass?
2. How big is our target segment for season passes?
3. What range of prices would compare in value to the event tickets that the pass replaces?
4. At what prices will we recover the costs of creating our season pass?
5. What is the internal rate of return on the initial investment?

Question 1: What does the market tell us about pricing a season pass?



GOAL

Assess the competitive landscape to see what comparable organizations charge for season passes.

TASKS

Identify organizations offering comparable product lines
Determine the price they charge for comparable products.
Assess how this price compares to the value of benefits offered.

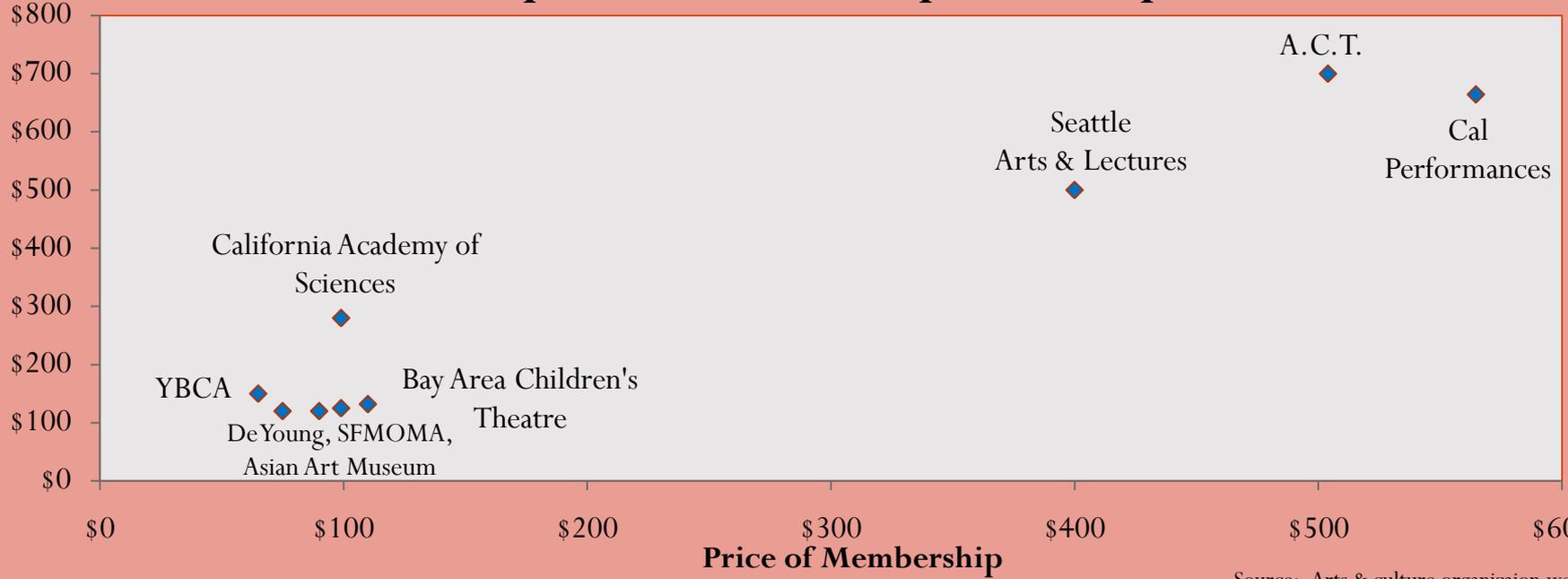


TOOLS

Internet, Excel

Value of Benefits

Comparable Memberships/Subscriptions



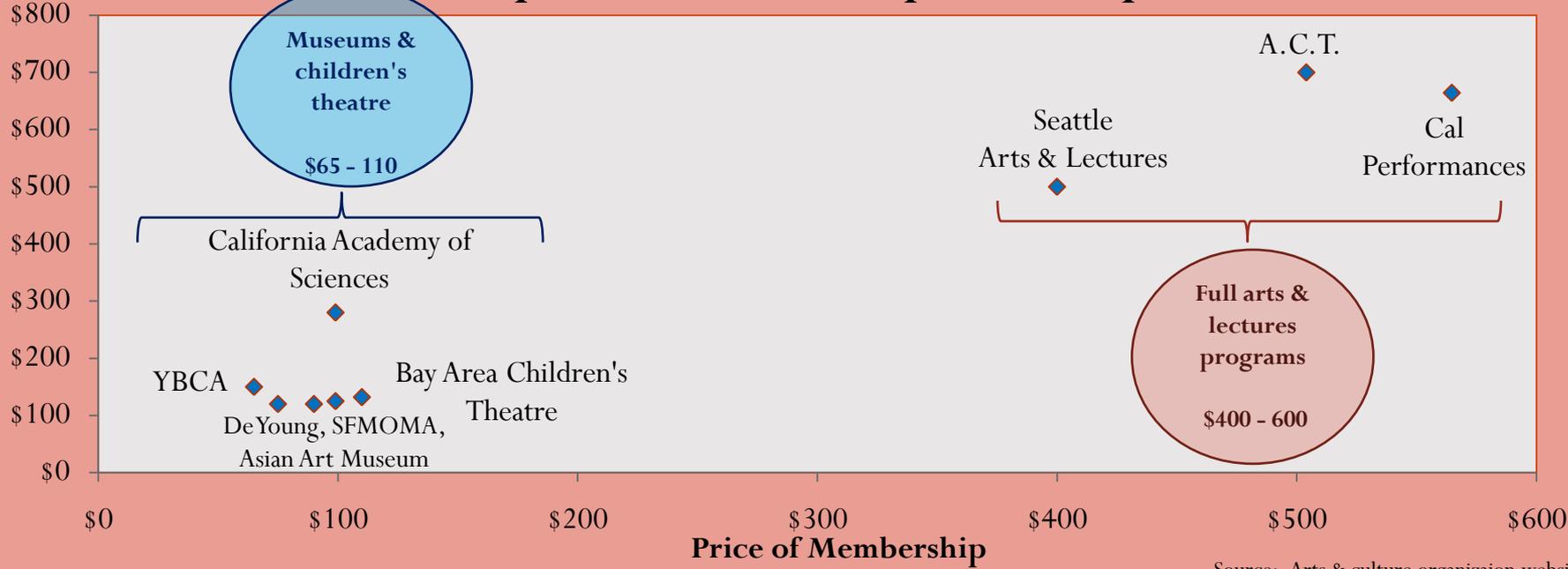
Source: Arts & culture organizaion websites.

Comparable Memberships, Passes, Subscriptions

Comparable cultural arts organizations with memberships, season passes, or subscriptions.

Value of Benefits

Comparable Memberships/Subscriptions



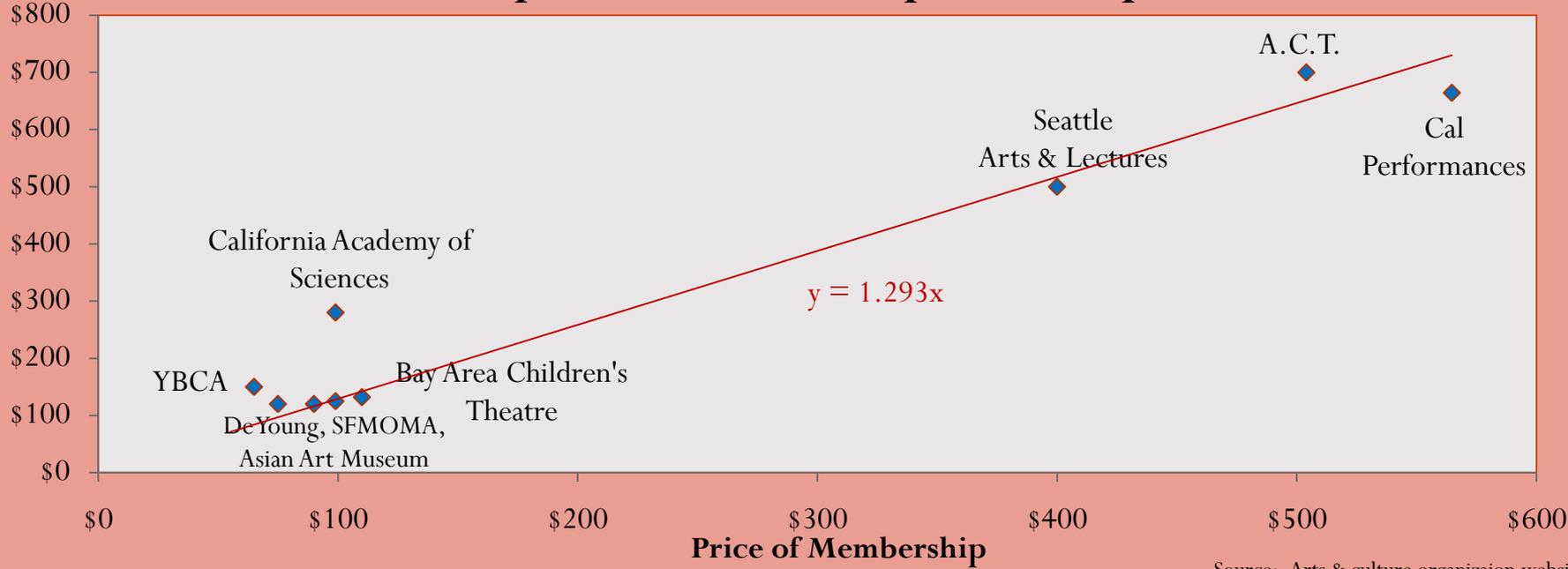
Source: Arts & culture organizaion websites.

Comparable Memberships, Passes, Subscriptions

Organizations offering a full range of lectures and performances like the SFPL had memberships or passes valued in the \$400 – 600 range.

Comparable Memberships/Subscriptions

Value of Benefits



Source: Arts & culture organizaion websites.

Comparable Memberships, Passes, Subscriptions

The value of benefits offered is around 29% greater than the cost of the membership.

Question 2: How big is our target segment for season passes?



GOAL

Use historical data to identify the target segment within the existing customer base.

TASKS

Identify subscribers (multiple ticket buyers) as the target segment.

Use historical data on subscribers to extrapolate the number and value of tickets purchased by subscribers at different spending levels.

Use historical data on ticket sales to estimate how sales will grow over a three year period.



TOOLS

Excel, Weighted Averages, CAGR

2013 – 2014 Subscriber Data

Subscribers are the most qualified and likeliest to be interested in a season pass because they already go to 5 or more events per year.

800 subscriber households



# events/season attended by subscriber households	Subscriber Households
5	300
6	150
7	100
8	70
9	46
10 or more	134

Source: SFPL historical data, 2013 – 14 season.

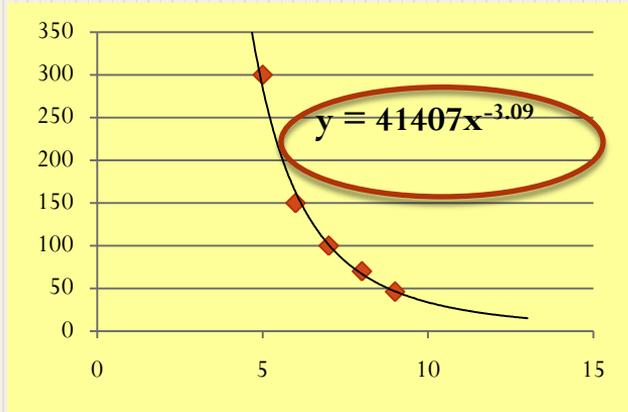
These 800 subscriber households comprise 1,440 individual subscribers.

$$1,440 / 800 = 1.8 \text{ subscribers/HH}$$

Extrapolate # of Events and Value of Tickets Purchased by Subscribers

Power Curve

Helps us extrapolate # events attended by highest-value subscribers (≥ 10 events)



Source: SFPL historical data, 2013 – 14 season.

x 1.8 subscribers per household =

Estimated # events attended and spending per individual subscriber

# events/season	Subscribers	Spend/subscriber
5	515	\$119.50
6	293	\$143.40
7	182	\$167.30
8	121	\$191.20
9	84	\$215.10
10	61	\$239.00
11	45	\$262.90
12	35	\$286.80
13	27	\$310.70
14	22	\$334.60
15	18	\$358.50
16	15	\$382.40
17	12	\$406.30
18	10	\$430.20
19	9	\$454.10
20	8	\$478.00
Weighted avg. # events attended by subscribers:		WEIGHTED AVERAGE
7.4		\$176.86

Growth

Historical data on *all* tickets sold gives us an overall growth rate.

Year	Total tickets sold
2009-10	20,000
2010-11	20,800
2011-12	24,600
2012-13	21,750
2013-14	28,325
AVERAGE	23,095
CAGR	9.09%

Source: SFPL historical data, 2009-10 through 2013-14.

We expect subscription sales – and the target segment of possible season pass buyers – to grow at about the same rate of $\sim 9\%$ /year.

Question 3: What range of prices would compare in value to the event tickets that the pass replaces?



GOAL

Identify the price that target customers would consider comparable to the value of their individual event tickets



TASKS

Survey customers to determine # of events currently attend and # they would attend with an unlimited pass.

Compute the value of one season pass that replaces what these customers *currently* spend on tickets.

Compute the value of one season pass that replaces the cost of tickets to all events they *would attend* with a season pass



TOOLS

Survey, Excel, **Value-in-Use Pricing Model**

Survey Data

A test survey asked some of the most regular subscribers:

How many SFPL events do you attend each year?

13

(≈\$311)

How many *would* you attend with an unlimited pass?

27

(≈\$645)

What would you pay for an unlimited season pass?

\$489

Value-in-Use Pricing

Determine possible price range with VIU pricing model

Variable	Existing # events / year <i>(average, all subscribers)</i>	# events/year people <u>would</u> attend with unlimited pass <i>(from survey)</i>
Existing average ticket price	\$23.90	\$23.90
Existing tickets needed/year	7.4	27
Season passes needed/year	1	1
Season pass VIU	\$176.86	\$645.00

Current VIU \approx \$180. VIU for full use of pass \approx \$650.

Question 4: At what prices will we recover the costs of creating our season pass?



GOAL

Make sure a price exists (within the VIU range) at which the cost of creating and distributing the season pass will be recovered.

TASKS

Begin with the range of prices from the VIU model.
Identify the fixed and variable costs of the product.
Calculate the number of units that must be sold to recover costs.
Calculate the time required to recover costs.



TOOLS

Excel, **Break-Even Model**

Break-Even Model

Fixed Costs:

Software module	\$15,000
+ <u>Marketing launch</u>	<u>\$5,000</u>
	\$20,000



Variable Cost 1:

Season pass card	
+ <u>Mailing cost</u>	
	\$1.25/unit



Variable Cost 2:

Lost sales of individual	
<u>tickets to each pass buyer</u>	
	Average \$176.86

Break-Even Model

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Break-Even Model

Fixed Costs:

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 \$20,000

Variable Cost 1:

Season pass card
 + Mailing cost
 \$1.25/unit

Variable Cost 2:

Lost sales of individual
tickets to each pass buyer
 Average \$176.86

Fixed Cost	Variable Cost 1	Variable Cost 2
\$20,000	\$1.25	\$176.86

Possible Prices	Forecast Units	Unit Cost	Break-even (units)	Break-even (# years)
\$180	1,457	\$191.84	-1,690	-1.16
\$200	942	\$199.34	30,368	32.24
\$250	649	\$208.93	487	0.75
\$300	467	\$220.94	253	0.54
\$330	346	\$235.91	213	0.61
\$360	262	\$254.45	189	0.72
\$400	201	\$277.61	163	0.81
\$450	156	\$306.32	139	0.89
\$500	94	\$390.88	183	1.95
\$600	54	\$548.48	388	7.19
\$650	24	\$1,011.44	-55	-2.31

We find # years to break-even by dividing break-even units by forecast unit sales/year.

The least number of units required to break even occurs at \$450, but the least time required occurs at \$300.

Question 5: What is the internal rate of return on the initial investment?



GOAL

Determine the IRR over three years at the selected price.

TASKS

Begin with the selected price.
Identify the initial investment and the estimated cash flows over three years at this price.
Use the IRR model to calculate the rate of return on the initial investment.



TOOLS

Excel, **Internal Rate of Investment Model**

IRR

Having used break-even to select a price of **\$300**, we use IRR to evaluate the internal rate of return over three years of sales.

Growth in sales quantity = 9%, price constant at \$300.

Initial Investment	Cash Flow (Year 1)	Cash Flow (Year 2)	Cash Flow (Year 3)	IRR
	\$140,100	\$152,709	\$166,453	
	-\$82,594	-\$90,027	-\$98,129	
-\$20,000	\$57,506	\$62,682	\$68,323	290%



Positive cash flow from season pass sales



Minus offsetting loss in individual ticket sales

Recommended Price Based on Models

1. Competitive landscape: \$400 - 600
2. Survey data: \$250 - 750 (mean \$489)
3. Value-in-Use: \$180 - 650
4. Fastest Break-Even: \$300

Recommended Price: \$300

Recommended Price Based on Models

Have we met our goals?

- | | | |
|----|------------------------|--|
| 1. | Price recommendation? | \$300 |
| 2. | Value to the customer? | \$489 value > \$300 |
| 3. | Positive return? | Break-even in 6.5 months
IRR = 290% |
| 4. | Improved cash flow | Cash flow up by \$57K |

Recommended Price: \$300



Recommended Price Based on Models

Recommended Price: \$300

We recommend introducing a season pass at \$300. We expect to see:

1. High IRR
2. Fuller audiences
3. Greater donations
4. Increased excitement and individual ticket sales

