

Analysing the Product

Most arts and entertainment organisations' products are a combination of tangible and intangible elements. The product includes the building, the services provided, and of course the core product.

Products are usually divided into core and augmented products.

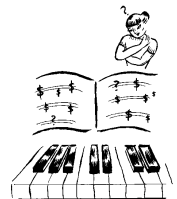
- ◆ Core products are directly related to the mission and objectives of the organisation. The core product of a cinema is the films it shows. The core product for a festival is the event program.
- ◆ Core products can be further divided, with some products standing out as flagship components of the core product. Flagship components are key products, with a high level of visibility, or things which are 'expected' by visitors. In the case of a film it could be the superb quality sound system.
- ◆ Augmented products are the extras which are provided. For example, the quality of food and beverages at the festival or the souvenirs for sale. Although augmented products are secondary, they are very important, and often the key factors which influence a person's decision about which event to attend.

The visitors' satisfaction level with a venue or its services may be dependent on both core activities and augmented activities.

Services as a Product

Services are an integral part of the arts and entertainment industry. The key characteristics of services are:

- ◆ Services are intangible — services are usually made up of information, ideas, or presentations, rather than concrete items. A lecture may include printed notes, but the key element is the information and the way in which it is delivered.



- ◆ Service is inseparable from the provider — the presenter of the lecture is a key element in the enjoyment of the program. A theatre production is the result of the performances of the actors, and the way they work together.
- ◆ Service is variable in its characteristics — a person attending a lecture does not know in advance just how good the lecture will be. Even if they have heard the lecturer before, or attended other lecture programs at the same venue, there is always an element of the unknown.
- ◆ They are perishable — Although we can put unsold merchandise away from one night to the next, a seat in the theatre which is unsold on Monday, cannot be sold twice on Tuesday. Another performance must be scheduled to fill the seat again.
- ◆ Services are influenced by the customer — many arts and entertainment services are affected by some degree of customer involvement. Successful street theatre depends on the ability of the busker to involve the audience. A guide taking a school group through a museum will react differently depending on the age, behaviour, and interest of the group.

The product mix is critical to the viability and growth of an organisation. The introduction of new products of services, reviews of products, and a clear understanding of which elements are flagship items and which might be replaceable is important.

Pricing the Product

Consumers face a range of options for how they spend their time and money. To reach decisions they analyse options in terms of a cost-benefit analysis. This may be done quickly, or sometimes with detailed research and analysis.

Organisations face similar situations. There may be several new exhibitions, ideas, or programs, all of which are within the scope of an organisation's mission and objectives. Deciding which to choose may include a review of the costs of production as well as the anticipated return.

Setting the price for an art or entertainment activity can be difficult. Because money spent on the arts is, in most cases, discretionary income, and the choices are considerable, it is important to understand consumer motivations, the competition and its pricing structure, and the bottom line costs of putting on an activity or event.

There are three commonly used systems for establishing price structures:

- ◆ cost-based pricing;
- ◆ demand-based pricing;
- ◆ competition-based pricing.

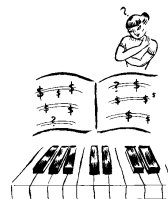
Cost-based Pricing

Based on the principle that an organisation should recover all, or a reasonable amount of, the costs of providing goods and services.

The organisation may seek to recover the costs of putting on an event, or it may seek to make enough on the event to cover the operating costs and a certain percentage of recurrent expenditure, or even contribute a profit.

On the other hand, it is possible that because of its mission or objective it may offer prices below costs and seek subsidisation from other sources, or review costs on an annual rather than a project basis.

While one event is profitable, it may in fact, subsidise another less profitable event. As long as costs are met overall, then the organisation has achieved its goals.



Demand-based Pricing

Based on the level of demand, rather than on the cost of providing goods and services. Sometimes working solely on the basis of cost can actually disadvantage an organisation. The product may have considerable value to the potential consumer who is, in fact, prepared to pay a far higher price than simply the recovery costs of producing it.

Demand-based pricing follows the premise that products should be priced to reflect their perceived value. When the customer rates the product highly the price can exceed the production costs.

Competition-based Pricing

Competition-based pricing, as the name implies, is influenced by the activities of competitors. If there are a lot of competitors (as in the cinema industry) it is likely that prices will be comparable from site to site. If, however, the offering is unique (Michael Jackson in Concert or The Three Tenors) then final pricing decisions will not necessarily hinge on what others are charging.

Budgeting for Marketing

There are five ways of setting a marketing budget:

- ◆ Affordable method — the budget is set based on the amount of money the organisation believes it can afford to spend on marketing. The amount may vary from year to year, and depends on other priorities.
- ◆ Percentage-of-sales method — commonly used by larger non profit organisations and profit-making companies. Usually identifies the marketing budget as a percentage of total sales. In the arts and entertainment business this figure is usually somewhere between three and seven per cent of sales. In some areas, such as theatre and cinema, it may be higher.

- ◆ Competitive-based methods — based on matching, or using slightly more or slightly less than the amount of money spent by competitors. In this case the marketing budget is usually centred around promotion costs. The reasoning behind it is that the organisation monitors the spending of competitors and ensures it budgets a similar amount.
- ◆ Objective-and-task method — requires staff to define all the tasks which need to be done during the budget period, and cost them. The budget is then set to meet these needs.
- ◆ Response-optimisation method — forecasts the likely behaviour of the market in response to various possible marketing activities and chooses which will bring the highest return to the organisation.

