

TICKETING THE GAMES

THE PRICE OF OLYMPIC SUCCESS

Pricing almost eight million tickets for the 2012 London Olympic Games was a hugely complex challenge. How could those in charge of the Olympics, billed as ‘Everybody’s Games’, juggle the clashing objectives of the event’s many stakeholders? Marco Bertini spoke with Stuart Crainer about the challenge of Olympic ticketing and what it reveals about setting the price of all goods in the future, especially given today’s savvy consumers and the new technologies that are changing the way business is done.

You have been examining the 2012 London Summer Olympics almost from the awarding of the bid. What made you so interested?

My interest stemmed from the extreme context. Obviously the Olympic Games is a great event because of the athletes and their stories. But people seldom think about all the problems posed by holding such a complex event in such a short period of time. What intrigues me is the conflict faced by the London Organising Committee for the Olympic and Paralympic Games (LOCOG) between selling enough tickets to fill the stadia and making sure the revenue target is met. It’s a classic example of volume or revenue, where it seems that going for one objective will hurt your chances to achieve the other, and vice versa. Sometimes the two don’t move in the same direction. If LOCOG had been able to ignore revenues, maximising attendance would pose little challenge.

Similarly, if they didn’t care to see full stadia, reaching revenue targets would have been greatly simplified. In addition and perhaps the most important goal of them all, LOCOG has to make sure the British public is happy with the process and outcome. Their pricing decisions have to be made to meet the attendance and revenue goals while remaining inclusive — it was sold as *everybody’s* Games for a reason.

And it must have been hard to price such a wide array of events. Very. Keep in mind that the Olympics involve 26 world championships that take place in the course of only two weeks. Moreover, these world championships are in sports that are completely different from each other in terms of their demand profile. Tai kwon do is completely different from football and both are different from, say, swimming. Each poses



different problems. For example, few would guess that football is the hardest sport to sell at these Games. England is certainly a football-loving nation, but this sport accounts for a large portion of all available tickets, the stadia where the matches will be held have very large capacities, and the athletes competing are not the household names we see every week playing in the Premier League, in Serie A, and so on. Then there is the fact that you have hardly any available data upon which to base your decision-making. Whereas a company like Procter & Gamble can take scores of historical sales data to decide how to set prices, in this situation there is nothing to rely upon.

Finally, there really isn't a chance to do things over. If you go wrong, you can't say: "Let me tinker with the prices a little." Most companies that make a pricing mistake can correct it during the next quarter or at the first opportune moment. With the Olympic Games, you have to post a pretty good indication of your prices as early as when you submit the initial bid, which makes it difficult to deviate too much from estimates made years before the event.

What about past Olympic events, don't they provide useful data?

The Beijing Olympics didn't provide numbers; and even if it did, they wouldn't have been relevant because Beijing had a completely different objective and cultural and geographic context when it hosted the Games than London does. Even if you go back to Sydney, which has a fairly similar profile to the UK, that Olympics took place before the Internet was available for ticket selling, a different time and a completely different world. So there's no data. And London's Games will be sold almost 100 per cent online.

We are talking about a huge number of seats to be filled, aren't we?

The numbers are staggering. Almost eight million tickets were up for sale, which meant, according to LOCOG, almost 500,000 spectators per day could be expected to attend the Games, with up to 800,000 on the busiest days. LOCOG estimated that roughly 30 per cent of all tickets would be purchased by Londoners, 25 per cent by United Kingdom residents who

“The key lesson for me would be about moving away from more mechanical ways of thinking about pricing to a much more humanistic way.”



lived outside of London, 20 per cent by people from the rest of Europe and 25 per cent by people from the rest of the world. Total ticket revenue was budgeted at close to £411 million.

Was the pricing process as complex as staging the events?

When it came to selling seats, the simplest and most transparent process was deemed necessary to help people understand how some buyers were successful in getting tickets while others weren't. The more complex and opaque the process, the more likely that applicants would infer some sort of 'fix' to ensure favoured parties, say, corporate sponsors and rich people, got tickets while others came up empty. To limit negative reactions, those in charge decided to sell the tickets over several rounds. They also decided to engage the buying public very early on, communicating often via email to explain the process, the key dates, and what the expectations should be.

In the end, some two million applications were filed for round one in mid 2011, and the average applicant asked for 11 tickets. Thus, the early demand was for over 22 million tickets. Although a complicated process, the goal was to try to ensure fairness.

Some of this must sound familiar to people who work in pricing in the commercial world.

Yes, firms face these decisions all the time. How should a company's pricing handle trade-offs among profit, volume, customer selection, and so on? How might the mix of customers influence the reputation of a brand both now and in the future? Should the firm care who buys its product so long as the product sells? After all, not only does LOCOG have to fill seats, but it also has to fill them with the right people — real fans of the sport, the nation competing, or the Games in general. There is nothing like competing in a stadium full of excitement and energy. The athletes feed off their surroundings, and LOCOG is keen on providing the right setting for each event.

What do you mean by 'the real fans'?

You have to attract those that are interested in and knowledgeable about the sport they are going to watch. For example, at the Beijing

Games there were several incidents where unknowledgeable spectators clapped at inopportune times, creating embarrassing situations that were demotivating to athletes. So, you want the right sort of customer, experts in the sport, fans of the person or the nation, fans of the Olympic Games in general. It was fascinating to watch the process by which decisions were made; for example, 26 different business plans were constructed, one for each sport. Each one was treated as a separate business: football was a business, tai kwon do was a business, and the plans involved determining how to maximise attendance for that particular sport/business.

Under the microscope

How did the people in charge handle the problem of less popular events and less known sports?

Here is where marketing came in. How do you attract attention to a sport? Do you find a potential star with a good back story? Will that help build media interest enough to get them to cover that athlete and his or her sport, educating people about what the sport involves? These efforts can make a huge difference.

Is getting the media to focus on the Olympics long before they take place always a good idea?

Encouraging media involvement, of course, has a potential downside. You don't really want to make too much of a fuss in the press and get them to focus on every aspect of what is going on, especially early in the process when things are changing as problems emerge, because they have a tendency to look for drama. For example, you don't want the press to say that grandparents from East London who funded the building of the stadium cannot find a seat, because they've been priced out of the Olympic Games.

Is the price right?

What one aspect of all this did you find most fascinating?

I thought the Olympic Games offered a very interesting way to think about pricing, generally, as a concept. If it were an industrial goods company, it would have been less interesting. It was the brand that made it so interesting. Even though it's a strange situation in a strange

setting, it allows you to highlight, in my opinion, one of the main aspects of what a good pricing strategy looks like: the need to connect your pricing decisions to those relating to your brand, making sure you're consistent, and using the pricing mechanism to underscore what a brand does and is. Branding and pricing cannot move ahead at separate speeds and on separate paths. The Olympic Games have a strong, well-defined brand, so you have to make sure pricing is consistent with that idea.

Which must raise unique questions...

As you think about pricing, you've got to think about how the policies you settle on affect the perception of the brand you charge customers: Do I bundle tickets for tai kwon do with athletics? Do I bundle public transportation with the prices of tickets, to motivate certain kinds of behaviours? Do I offer free tickets? Then there is the question of the actual price levels. How much should they be? How many levels should there be? Should they be flexible, so that I can discover demand as I go? In other words, how do I structure my menu of prices?

One useful approach is to divide events under three headings:

01

THE 'BIG FOUR'

Swimming, artistic gymnastics, athletics (track and field) and the Opening and Closing Ceremonies. These were considered events for which demand historically far exceeds supply and which would likely sell out at almost any price. About 40 per cent of ticket revenues were expected to come from these four events.

02

FOOTBALL

With almost two million tickets across 58 men's and women's matches, football is the most popular sport in Europe; but — unlike the FIFA World Cup — Olympic teams are largely limited to players under 23 years of age, eliminating some of the biggest names in the sport. About 10 per cent of ticket revenue was expected from football.



CONSUMER POWER

MUTINEERS OF THE WORLD

The advent of the Internet as a means of selling tickets is just one of the changes that has made a difference in the world of pricing. Today, everything about a product is open not only to scrutiny and comment, but also to campaigns that can be mounted quickly to change what people see as right or wrong about pricing decisions.

Consumers no longer just walk away from a product because of its pricing; they make their dissatisfaction known, prompting others to see a problem. What once would have been a voice in the wilderness is now — through the use of Facebook, Twitter, YouTube and all sorts of smartphone apps — a voice that can bring about a mutiny, upsetting the corporate applecart when it comes to pricing decisions.

THE M&S PRICE BUST

In the last year, we have seen the retail chain Marks & Spencer facing a campaign over its higher pricing for larger sized bras. Bank of America also encountered insurrection among its customers over a \$5 monthly fee on debit cards. Faced with irate customers, the companies speedily reformed their pricing.

THE PRICE OF FLIX

In another example, the stock price of the US movie rental firm Netflix was diminished as a result of the ire of millions of customers in July 2011 when it imposed a new pricing structure. "The price increase spurred complaints from thousands of Netflix customers on Facebook and other websites," the *New York Times* reported, "some of whom said they may now rely less on physical DVDs and more on online options." And with the subsequent dramatic loss of customers, Netflix ended up paying a high price for its decision.

THE BOSS

When it comes to sales of tickets to events, the problems that have emerged in the US surrounding a company called Ticketmaster are legend. In the case of a Bruce Springsteen concert at the Superbowl, numerous fans who logged onto their computers the moment tickets went on sale found that all the seats had mysteriously sold out. They got an error message instead that directed them to TicketsNow, a site owned by Ticketmaster that resells already-sold tickets at a significant markup.

The fans got mad and took to the blogosphere to call attention to what had happened; then Springsteen got mad. Eventually Ticketmaster apologised; but, by then, lawmakers alerted by the unhappy would-be purchasers called for investigations. That fiasco and a subsequent one resulted in an investigation by the New Jersey Attorney General. According to *Rolling Stone* magazine, a settlement was reached with the company, and "under the terms of the deal, Ticketmaster has agreed to alter its business practices and pay \$350,000 to cover investigative, attorney and administrative fees."

The power of a pricing strategy must now be weighed against the power of consumers.

03

ALL OTHER SPORTS

Here, supply historically exceeds demand; thus, great effort and brilliant marketing would be required to maximise sales.

Does this tiered structure mean that prices can be astronomical for the tier one events?

LOCOG has a financial obligation to meet the revenue target that will allow it to stage the type of Games the British public will be proud of. To do that, popular sports will have to be, on average, more expensive. But it doesn't necessarily mean that an outcry over ticket prices will follow. LOCOG is still being true to its brand positioning of inclusion and participation. It does that by making sure every sport, no matter how popular (even the Opening Ceremony!) has some tickets at £20. There might be less entry-level tickets available for these high-profile events, but nonetheless LOCOG is making sure that anyone with £20 to spare has the (equal) chance to attend any sport. This is a powerful statement in my mind. That said, you are never going to satisfy everyone. So of course there is going to be some animosity. In great part, it then becomes a matter of how you manage people's expectations.

Unfortunately, if you ask somebody in the street, "What do you think about the Olympic Games and would you like to go?", in reality they would probably say, "I want to go and see Usain Bolt in the 100m final, but I only want to pay £20." That is people's expectation: I want to pay little to see something very good, that is, tier one events. As a result, there are going to be people who are disappointed, which is what happened, because everybody is going to want a ticket for that. No matter what the price points had been, that would have sold out.

Even though the average ticket price for these more popular events is undoubtedly higher, it is still critical to have a range of price points available. There have to be some people going to the stadium at the very affordable prices. But perhaps the proportion of those prices is relatively less.

It is interesting to note that the London Games is the first Summer Games with five price points, instead





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of three, for most events. This captures what I meant about having the ability to provide different price points to people for all sports.

I presume that disappointment is something they build into the strategy.

Indeed, LOCOG had clear messages about certain amounts of tickets being available at £20, a certain amount of tickets at £30, and so on. These key statistics were thought to help shape the conversation and guide it away from, say, the average ticket price, or the number of people that did not get a ticket. Pricing the Opening Ceremony with ticket prices ranging from £20.12 to £2012 was also a media savvy move.

Getting it all right is a pretty impossible task, isn't it?

It certainly is. And there were two key questions that those pricing the Olympics had to ask, namely: Where would you like to be wrong? Would you prefer to be wrong on the revenue side, which would leave you under your revenue budget, or do you want to be wrong on the attendance side? Pricing strategies always involve trade-offs.

Perhaps most important is to keep in mind that the perception of unfairness in today's world of social media can have devastating effects. Technology changed the way Olympic tickets were sold, and it was a change that happened extremely fast. Violating the perception of fairness already has had devastating results for some companies. Who knows what new technologies will appear that could force us to rethink pricing yet again when the next Olympics are staged? **■**

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