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Pricing Strategy in Leisure Services

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ABSTRACT

Pricing, in the leisure service industry, has been difficult because of a lack of a thorough understanding of procedures and methods. This article outlines basic procedures and strategies for establishing a systematic pricing policy. These types of policies help to reduce the risk involved in the leisure service industry.

PRICING STRATEGY IN LEISURE SERVICES

PRICING

Leisure service managers, whether in public or private organizations, face a common problem: what to charge for services delivered. The parent organization (the public agency or the developer) has promised the delivery of "public goods," based upon appropriations from general tax revenue that must be distributed equitably, or upon a selection of common amenities developed to enhance sales. The parent organization can reasonably demand that cost of service delivery be recovered. The nature of leisure services, however, is such that cost recovery is not always feasible. Bicycle paths, lazily winding through a community, provide safety for residents and recreationists. Unless access to the path is strictly controlled (only one entrance or exit, user fees cannot feasibly be collected. Numerous other examples could be listed.

Changes in the Market Place

The philosophical problem with charging for services delivered has never been an issue in the private sector, as it has been in public leisure services agencies. Instead, attention has been devoted to developing a sophisticated pricing strategy for the products or services delivered. Ambiguity is apparent, however, in businesses which use leisure services to support the primary product delivered. Perhaps the most widely recognizable example of this ambiguity is in the second home developments and resorts. Briefly, second home developments and resorts are created to provide alternate living space, usually based on a vacation or recreational concept. The developments are located on private property and may or may not be served by a public leisure provider. In most cases, even if a public agency were available, the market position of the development would not coincide with the market position of the public agency. Developers are faced with the dilemma of providing a service, leisure or recreation, to residents. Swimming pools, golf courses, and tennis courts are constructed as necessary amenities to enhance sales. Developers quickly learn that, while almost everyone enjoys water-related activity, the market segments for tennis and golf are restricted. Other recreational programming was thought necessary to fill the gaps in the market place. Leisure services were expanded to support the primary product delivered.

Establishing the cost basis for a revenue-producing service may be the most important step in the pricing strategy. In organizations requiring individual departments to recover costs, the pricing objective is pre-determined. Department managers must, within guidelines produced by their organizations, meet departmental objectives as efficiently as possible, while working to meet organizational objectives. Constant innovative attention to achieve a favorable situation for reporting administrative costs, monitoring expenses, and creative accounting is necessary.

PRICING STRATEGIES IN LEISURE SERVICES

Based on Costs

Three intuitive, although practical, pricing strategies are based on the objective of recovering costs. First, report administrative costs so that departmental objectives best are achieved. (It is <u>really</u> necessary to apportion a pro rata segment of the director's salary, to the children's swimming program, or can the salary, and other administrative costs, legitimately be associated with a more profitable or an "essential" activity?)

Second, carefully monitor expenses charged to departmental budget accounts: what you see is not always what you get. (Close examination of a revenue statement for a large leisure service organization recently disclosed a curious set of numbers. "Utility costs" for identical tennis centers differed by more than $8,000 for a six month period. The same statement revealed income from "racquetball court rental" for a tennis center that had no racquetball courts.) Inaccurate cost and revenue reporting renders the most sophisticated pricing strategy useless.

Third, use accounting practices that most accurately reflect managerial objectives for the department. This can be done instead of assuming a perspective of continual cost-cutting or budget constraint.

The leisure services manager may or may not be at the mercy of the accounting department. It is, however, the responsibility of the leisure services manager to determine if inventory control, depreciation, and debt amortization best reflect the objectives of the leisure services department, as a unit of the overall organization.

Based on Revenue Projections

Two pricing strategies commonly used in organizations whose basic objective is cost recovery are target pricing and markup pricing . A target price is calculated by projecting total costs for delivering the product or service to a specified number of consumers. A reasonable return is added, and the price is established by dividing the total by the number of units projected to be sold. Durable goods, such as cars and appliances, frequently are priced in this manner. Markup pricing is common in retail sales. Direct costs are established for goods or services projected for delivery. This number is incremented by some percentage sufficient to cover indirect costs and return on investment. The increment, or markup, is different for different goods and services. Some items may be "keystoned," or marked up by 100 percent or more, while others become "loss leaders", not making a profit themselves but serving to attract consumers to a common distribution point.

Prices Reflecting Marketing Strategy

Demand differential and price line strategies reflect the marketing strategy for the department or the parent organization. In leisure services, demand is quite different during different days of the week, even during hours of the day. If a manager can assume that demand for a product or service is elastic, if the price is lowered, sales will increase, then demand differential pricing will produce more revenue than will target or markup pricing. Prices may be set to achieve maximum revenue during periods of peak use, then "discounted" to stimulate sales during slack periods. It should be clear, however, that demand for many leisure services does not appear to be elastic.

Price lining is popular among large department stores. Several different forms of a product or service are provided, each aimed to meet the needs of a specific target segment. The basic idea is high quality-high price, medium quality-medium price, low quality-low price, and so on. This strategy also assumes elastic demand as well as specific, identifiable target market segments. The price line strategy is evident, particularly in public systems. Public tennis courts may be provided in neighborhood parks at no charge while top quality courts are provided at a "tennis center" and fees are assessed for usage.

The Marketplace

Basic to any pricing strategy, of course, is the marketplace: what competitors charge for similar products or services. Assuming elastic demand and well-positioned products and services, the going rate strategy must be considered. Organizations who price products more than 10 to 15 percent lower than competitors can suffer credibility problems. Conversely, those who charge more than 10 to 15 percent above market may lose business. Exceptions occur when the product or service is well-positioned in terms of quality and value, or is in a growing market.

The two biggest dangers in going-rate pricing are 1) the manager assumes that a monopolistic environment exists ("No one else is producing a produce like mine."), and 2) the initial price is set too low. Managers assuming that they have a monopoly continually need to reassess their market. If a monopoly does exist, the organization must maintain high flexibility in order to meet competition from those attempting to break into the market area. "Price wars" and other promotions will be necessary. Competition must be crushed, either in terms of price or product quality.

No matter what the organizational objective or the pricing strategy, setting an initial price too low can be a very costly mistake. Whether demand is elastic or inelastic, it is extremely difficult to raise prices set lower than 15 percent off the going rate. Public leisure services agencies are particularly subject to this error, assuming that children cannot pay more than a quarter or 50 cents to go swimming, however are not alone in this error. Arbitrary pricing decisions can cripple any leisure service delivery organization. A systematic approach to establishing the price of each individual item or service is essential to insure that the organizational objectives are being met.

Price Tactic--Refining the Price Range

The objective has been formulated, the target markets described, the marketing mix strategy is stated, demand differential is identified, the marketplace analyzed, direct costs are accounted, indirect costs allocated, and finally, the pricing strategy has a name. The words have been used, but the price of a particular item remains elusive. The last step is to establish a pricing tactic--odd-even, discounting, or sales promotions. Odd-even is used to make prices appear lower than they are: $19.95 rather than $20.00. In high-volume leisure services, the cost of counting change and the increased likelihood for cash drawer shortages may defeat any advantage gained by odd-even. However, if a service worth $17.00 can be priced at $19.95, then the tactic probably can be justified, even in high-volume situations.

In leisure services, the tactics of discounting or sales promotions are probably more common. The price is set to recoup costs and provide return on investment. Leisure services almost always are seasonal, and participation varies with the day of the week, and even the time of day. The price is set to provide the best income from "normal" business, then raised so that additional revenue can be generated during peak use periods. The tactic, however, is not to announce "New High Prices," but to attempt to stimulate any existing elasticity and to even participation through peak and slow periods by promoting "Monday Night Discounts" or "Two For One Twilight Happy Hours." The price tactic is used to finalize a specific charge, for a specific time, based on careful consideration of strategic variables.

CONCLUSION

No rule of thumb can apply for all situations, since leisure services are marketed so differently in different organizations. Some basic principles do apply, however, in creating pricing strategy, whether for a public agency or a privately-owned enterprise. The strategy sequence, outlined below, could be used in establishing prices. Experienced managers probably use, consciously or not, most of the steps. The process is useful, not to replace management ability, but to insure a systematic approach to decision-making.

PRICING STRATEGY SEQUENCE

1. State the specific marketing objective for either:

a. the product item--individual products, or

b. the product line--a group of related products

2. Describe the target market segments, in terms of demographics, location, and size--use census data for specific numbers

3. Identify a marketing mix strategy--ranging from high quality, premium priced goods, to low quality, discount priced goods

4. Identify any demand differential, by time of day, season, day of the week, or location

5. Identify competitors--those providing similar goods at any quality, including both public and priate organizations, systematically noting prices for competitive goods

6. Determine direct costs for providing the product or service--be systematic, include all known direct costs

7. Append applicable administrative or indirect costs

8. Determine pricing strategy--markup, target, marketplace,

price line, perceived value, or prestige pricing

9. Refine price by selecting a price tactic--odd-even, discounting, or promotions.

Following these steps will not necessarily result in an acceptable price. However, the knowledge gained should significantly reduce the risk of assigning prices for goods and services distributed among various consumers. The process has been developed by synthesizing material from several sources and has been applied in public and private organizations.

Worksheet for Pricing

Product--Tennis play (court time charges) for individual players

--Part of product line--tennis center--other elements include year-long memberships, lessons, retail sales, tournaments, baby sitting, and league play

1. Objective--to attract 10 new members per month

2. Target market--families living within 3 miles of center (55,000 persons, 16,000 families, total0, average family income $33,000, median age 28, 1 child, owns home.

3. Marketing mix strategy--product line is high quality, average price (compared with competitors)--penetration strategy

4. Demand differential--weekends and evenings are busy, Monday is busiest weekday evening, Tuesday is slowest.

5. Competitors--nearest competitor is 6 miles from target market center, quality and price are similar--court time for non-members is $10.00 per hour evenings and weekends, $7.50 other times.

6. Direct costs--$1.00 per court, per hour (arbitrary, in this example--carefully determined, in reality)

7. Indirect costs--none charged to this item

8. Pricing strategy--target--$200.00 per month

9. Price tactic--combination, discount/odd-even--Tuesday evening non-member price is $4.95 per hour during April and May; if a membership is purchased the same evening (at a special rate, of course) the new member receives a coupon for $4.95 that can be used in the pro shop or bar.