

Nor'easters case analysis

Business



Executive Summary In Springfield Nor'easters case study, Larry Buckingham is the marketing director for the Nor'easters, a class A minor league baseball team in Springfield, MA.

As any other profit-seeking business the objective of this sports club is to sustain a viable business by making profit, at least brake-even in the opening season. The two major sources of revenue for Nor'easters are ticket and concession sales. Larry conducts market research to gain knowledge about potential customers and their willingness to attend Nor'easters games on different ticket price levels. The results of the survey and other information collected by various sources help Larry to develop a pricing strategy for the Nor'easters' ticket and concession sales. This paper evaluates the data yielded from the market research, presents two alternative pricing strategies and states the strengths and weaknesses for each.

Finally, this paper concludes with a set of recommendations from the alternatives discussed. According to the evaluation of survey data, the information provided in the case and assumptions made, at least 50% of the Springfield population need to attend at least one game throughout the season for Nor'easters to break even. However, although not fully reflective of the whole population due to limited sample size, the survey data states that only 39% of Springfield residents are willing to attend games.

Nor'easters will have to escalate this to above 50% level by conducting marketing and communications actions or consider establishing itself in some other city. I. Background Larry Buckingham is the marketing director

for the Nor'easters, a new Class A minor league baseball team in Springfield, Massachusetts.

Since they just opened their offices, the team will not play a game until their first season starting in June 2009, 18 months from now. Larry is responsible of establishing the correct pricing strategy prior to season start to maximize revenue and at least break-even in the team's first season. Although ticket sales will generate the largest portion of the revenue, attendance is also relevant in generating revenue from concession sales such as snacks, souvenirs, arcade games etc. Springfield, having lost its higher income residents during the last 50 years, is a city of limited financial means. Although the economy is recently reviving by the entry of service industry, 25% of families still live below poverty line.

Residents of Springfield are rarely exposed to sports events due to lack of professional clubs and the frugal nature of its citizens. The ones, who are willing to pay and watch a game, drive somewhere else in MA. Buckingham wants to conduct a market research study which would help him develop a pricing strategy for the Nor'easters' ticket and concession sales. He starts his research by analysing the existing data from a national research conducted in 2005 by the League Sports Association and confirms that families with school age children are more likely to attend sporting events. The research also showed that only 8% of those surveyed attended a professional baseball game that year. Buckingham is informed by a local sport reporter that high entertainment value provided to customers, who consist of sports fans, college students and families with school age children, is the key for high attendance.

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He also knows that college students rarely show up at sports events due to high ticket prices and lack of transportation. Buckingham decides to conduct his own market research to collect primary data specific to this market apart from the secondary data he collected from LSA's out-dated comprising major league data which is of no use for him. The primary data source Buckingham chooses to use is conducting a survey. His research objective is to predict how many people would come to see the Nor'easters and how much to charge them. In order to prepare the survey questions and gain some insights he speaks with 6 counterparts who work for other minor league teams in north eastern US.

Buckingham designs the survey to ask both demographic and specific pricing questions as well as about sports attendance habits. He sends postcards to 10, 000 recipients, whose contacts are bought from Springfield census tracts and 4 sports related organizations, to direct them to the website where they can complete the online questionnaire. Despite the \$500 motivational incentive drawing the response rate is small (625 out of 10, 000) which Buckingham believes that it is a decent sample of the population. Key findings from the survey are as follows: The customer profile: Potential customers are equal likely to be male or female and not necessarily baseball fans. The majority of them are between 26 and 35 years of age with children 5 to 16 years old (34% have no children in this age range and no children at all). They have an annual income between \$22, 500 and \$75, 000 and are fairly educated (72% are high school graduate and above).

* A significant majority of the respondents never attended a sports game. Only 39% said they would attend one or a few games per year. The pricing <https://assignbuster.com/noreasters-case-analysis/>

questions show that customers are willing to pay between \$10 and \$14 for a single ticket which is the biggest market according to the survey results as mentioned above. The larger the ticket package, the more discounted the customers expect the price to be. Most customers are not willing to pay more than 10% for premium seating.

81% of the respondents stated that they would spend between \$6 and \$15 on concessions. II. Problem/Issue Statement It is stated in the case that club owners run their teams as sustainable businesses which make profit. The Nor'easters is no difference. The business objective of the club is to generate revenue which at least breaks even with the total costs in the first season.

The primary issue is to develop a business strategy which fulfils the business objective of generating enough income to initially break even and sustaining profitability in the mid to long term. As income is generated through ticket and concession sales, the issues revolve around creating a pricing strategy, structuring of multiple-ticket packages and achieving maximum concession sales with high attendance. The secondary issue related directly to Larry Buckingham is to conduct a thorough market research to gain enough insight to be able to make a decent decision on ticket pricing and overall perspective of the target audience. Larry wants to learn how to price tickets and concessions. III. Price Analysis What considerations should the Nor'easters take into account in establishing a pricing policy? There are two major sources of revenue for Nor'easters apart from minor revenue generators such as corporate sponsorships, financial support from the city and nearby colleges and advertising (stadium banners).

These are ticket and concession sales. The revenue will highly depend on the ticket price level, the discounts offered for multi-game-package and season tickets and the attendance as this affects concession sales. Nor'easters should take into account the following considerations: * Other activities such as movies, bowling etc. create competition. Seat prices should not be considerably higher than the ticket prices for these activities.

On the other hand, the fact that Springfield lacks more professional sporting events (there is only 'the Falcons') meaning less competition for the Nor'easters than some other major cities. How much money are customers willing to pay for single, multi, half season and full season tickets? How much discount should be offered on non-single tickets? * Rate of attendance and how much each spectator would spend on concession * Nor'easters should not forget about the fact that the locals of Springfield have a smaller annual income than the national average and therefore are price sensitive. * The ticket prices must be high enough in order to distinguish the Nor'easters from the college teams, not to leave money on the table and prevent no-shows but also low enough to discourage fans driving to Boston. Plus, many customers use price as an indicator of quality. Ticket Pricing Plan and Variations by Package Type In his survey, Buckingham asks for specific price information which is subjective and not necessarily 100% reflective of a customer's resistance point to a given ticket price. The responses he received may not indicate what the real maximum is that the customers would pay.

In experience, respondents of surveys tend to declare higher prices than they are actually willing to pay in order not to appear 'cheap'. Additionally, <https://assignbuster.com/noreasters-case-analysis/>

there is an additional parking fee expense of \$4 which is not mentioned in the survey and probably not considered by the respondents. The median price the prospective spectators are willing to pay according to the survey results is \$10.84 for a single ticket. With the above assumption of respondents declaring higher prices in surveys, it is reasonable to set Nor'easters' ticket price a little lower than this.

The local college teams (non-professional) charge between \$5 and \$6 for a single ticket per adult. As a professional team, Nor'easters' ticket price should be set higher than this to distinguish from college teams in terms of perceived brand equity. A high price delineates a better product in peoples' perceptions. Movietickets.com suggests that an adult movie ticket costs \$10.

75 and a child ticket costs \$7.75 in Springfield. Taking into account above statements, it is chosen to set the price for a single ticket to \$10. This group mainly includes families, which have the relatively highest income compared to groups like students and senior citizens. As mentioned before, it is suggested that high entertainment value provided to customers is the key for high attendance. For high entertainment the right atmosphere is crucial which can be created by young and enthusiastic supporters cheering for their team throughout the game.

Therefore a special price should be set for students, who have the most limited financial means, to attract them to the games. It is chosen to be \$8. The overall pricing strategy should also include generous discounts for certain categories such as children and seniors on tight budgets as well as

fairly cheap season tickets. The price for the child ticket is chosen to be low, \$7, because families with children will consume more concession goods, and that is a target group Nor'easters wants to attract to the games. \$9 for a senior's ticket is appropriate.

The single ticket prices for different spectator segments are discounted for multi game, half season and full season tickets proportionally. As the majority of the customers are not willing to pay more than 10% for grandstand seating, there is no incentive to set different price for these seats. They can be served in a 'first come first serve' fashion, which is a fair 'carrot stick' to sell the tickets as soon as possible. As mentioned in key survey findings, only 39% of the respondents said they would attend one or a few games per year. Since young/old female and male alike, all Springfield population are potential customers so that 39% of the population (55, 338) is assumed to come at least once in a season.

However, as 25% of the population is below poverty line, 39% of the remaining 75% of the population is the real target figure which is 16, 187. 1% of the people are willing to spend more than \$6 on concessions with a 36% more than \$11, so it is assumed that \$9 is typical of what the spectators will spend in average. Respondents of the survey are expecting to pay less if they buy multi, half season and full season tickets, so that these have to be priced accordingly. The median price respondents are willing to pay for 5-game-tickets is only marginally smaller (\$10. 16) than the single ticket price (\$10.

84). Therefore, the price of these is set as \$9.5. Again, taking into consideration the median prices, the half season price is determined as \$8 per game and the full season price as \$6 per game. This is also in-line with the statement in the case which informs that 40% or more discounts are offered on season tickets by the other minor league baseball teams.

With these prices 80% of the respondents who declared they would attend a single game will actually attend if the single ticket price is 10\$. Similarly, 75% will attend 5 games if the multi game package costs 9.5\$ per game. This percentage is 79% for half season and 56% for full season respectively. Again, survey data is used to establish to determine the distribution of ticket types. 21% of 39% who declared to attend the games only once is 54%.

Similarly it is 28%, 13% and 5% for 5-game tickets, half season subscription and full season subscription, respectively. As suggested by the demographics of Springfield and the survey data, it is assumed that 50% of the spectators will be families with children. 20% will be senior people above 56, another 20% will be single men and women and the rest 10% will be students. It is assumed that the average family with children between 5 and 16 of age is consisted of the father, the mother and 1 child according to survey results. Even though minor league teams enjoy financial support from major league teams to cover their expenses such as players' salaries and materials (bats and balls), the Nor'easters needs to cover all other operating expenses including league dues, staff salaries, office expenses, team travel, market research ; mailing lists and advertising, sales ; marketing which total \$1,051,879.

The stadium is provided by Springfield College in exchange of parking revenue so that the club will not pay any stadium lease. Apart from that a total of \$46, 000 is collected as financial support and in sponsorship. Variable costs are the costs of concessions. Net profit/loss/break even scenario The break-even point for any business activity is defined as the level of sales at which neither a profit nor a loss is made on that activity – that is, where total revenues are equal to total costs. In our case, the business objective is to generate at least revenue of \$1, 439, 284 (total fixed \$ variable costs) to break even in the first season. The calculations are provided in the appendix under Scenario 1.

Unfortunately, under given circumstances and assumptions made it is not possible for Nor'easters to break even in the first season. According to scenario 1, total revenue generated by ticket sales, concession sales and sponsorships equals to \$1, 205, 519. With the total cost of \$1, 439, 284, Nor'easters closes its first season with a loss of \$233, 766. IV. Alternative pricing strategy and evaluation The revenue can be increased by setting higher ticket prices which would jeopardize sales due to the tight financial situation of Springfield residents. The real bottleneck for ticket sales is the potential attendance to the games by the locals.

Only 39% of the respondents declared that they would attend the games. However, this percentage can be increased with an effective marketing strategy. If Nor'easters can communicate effectively within its advertising and marketing budget, it is possible to pull this figure to 50% before the games begin in 1. 5 years. In order to realize this, Nor'easters should liaise with the local schools, sports associations and press to increase attention

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and awareness of the public towards professional baseball. Higher coverage in local media and encouragement from schools, sports associations and local government authorities to attend sports activities can increase interest towards Nor'easters virtually for free.

Apart from that, distributing promotional materials prior to games, invitations to Nor'easters' trainings, organizations held with the players mingling with the public can also help creating awareness. And finally, Nor'easters can also increase its revenue by finding more sponsors, selling stadium banner ads and jersey ads. Scenario 2 is prepared with the figures of scenario one. According to the calculations conducted (please refer to Scenario 2 in the appendix), attendance rate needs to be increased from 39% to roughly 51% in order to break even in the first season. The strength of scenario 1 is that it is conservative in terms of setting prices. Reasonable pricing is implemented in order not to drive away customers.

However, it cannot generate enough revenue to break even. Scenario 2's strength is that it unfolds to what level the attendance rate should be increased. Its weakness, however, is that it bears the risk of failing to increase the attendance. VI. Recommendations The two scenarios prepared for Nor'easters' first season financials suggest that there are two main means of creating and maintaining a sustainable business (making profit). One of them is to increase ticket prices, which is not a recommended strategy due to highly price sensitive nature of Springfield residents.

The second one is increasing the attendance above 50% – 52% threshold. This to some extent depends on Larry's efforts to promote the team and

leverage the awareness and interest towards Nor'easters. However, there is always the risk that the public refuses to attend games for several reasons such as lack of time, lack of transportation, lack of interest to any sports etc. which are fairly out of Nor'easters' influence. Considering the situation now, I would suggest Nor'easters not to initiate unless they are confident enough that they can increase attendance, lower fixed and variable costs, seek out for more sponsors and advertisers or find a way to ease transportation to the stadium.

Nor'easters should always keep in mind the reason why Falcon is considering leaving the town. APPENDIX