



BOUNCING BALL

By Matt L. Ottinger

of REVENUE

SPORTS TEAMS, COMPANIES
TRY DYNAMIC PRICING

If you've ever wondered why professional and college sports teams charge the same ticket prices when the best rivals and the not-so-great opponents come to town, you're not alone. In fact, those very sports outlets are now taking a closer look at the process – and some are employing a dynamic pricing system in hopes of garnering maximum returns.

Digonex, an Indianapolis-based company that specializes in ticket sales strategy, has developed its own mechanism – the Sports and Entertainment Analytical Ticketing System (SEATS). It uses complex algorithms to help teams earn maximum revenue by adjusting prices. The company boasts clients in Major League Baseball, the National Basketball Association, the National Hockey League and even professional soccer and rugby in Europe.

"We began in 2000 as a music pricing company – musicrebellion.com," recalls CEO Jan Eglen. "My background is in psychology; another psychologist and I started the company. We were combining behavioral psychology and economic theory and digital technology because the Internet was still new then."

He adds that about five years ago, dynamic pricing in sports ticketing became a trend that was starting to grow in popularity.

"The results are really good and teams find out that by 'smart pricing,' they are bringing more fans in and optimizing their revenues," Eglen surmises. "You don't always have to increase prices in order to increase revenues. You need to price smarter. Sometimes, you can drop prices to get more people in the seats, and make more money on the ancillaries like merchandise, food and parking."

The economic downturn and emphasis on Internet sales have played a role in boosting awareness of dynamic pricing in many industries, Eglen contends. However, he speculates that some companies are

wary of wading into what seems like unpredictable waters.

"I think the reason is that this is a sea change in the way a company does business ... and it involves finding out what your product is really worth. It's a bit scary to change your entire pricing culture because you've been making good money for a long time," he says. "But what happened is 2008 came along, and with it the sweeping changes of the Internet. There are not really many good brick and mortar pricing strategies that apply one on one with the Internet; our system was designed from the get-go to work in an online environment."

In action

One Indiana sports operation that uses a dynamic pricing formula is Purdue University athletics – although the school developed its own algorithms. The Boilermakers adopted the strategy for a few football games during the 2013 season and will do the same for some basketball games this year.

"We worked with grad students from our (Krannert School of Management)," relays Chris Peludat, Purdue's assistant athletics director of marketing and ticketing. "They worked on an algorithm to determine (pricing structure)."

He says the students were given 10 years' worth of data, including quantity of tickets sold, by what manner they were sold and when they sold.



“They plugged that into a formula and gave us touch points to say, ‘When you sell through this much inventory, you raise the price; then (sell) more, then raise the price,’ ” Peludat adds. “There’s definitely a science to it, though we didn’t necessarily stick to it 100% because we didn’t go as high as some of the models they provided us. But we use it as a guide.”

Eglen notes that Digonex uses very complex algorithms in helping clients determine prices. He points out that the company operates in five silos: sports, entertainment, hospitality, retail and e-digital (includes music, e-books, games, movies, etc.).

“We wanted to find the sweet spot where buyer demand meets seller price at any time in the product’s life cycle – and that last part is very important because the value of anything changes over its lifetime, whether it’s replaced by a new model, a competitor or a totally new technology.”

In the locker room

Digonex recently formed a partnership with The Lids Sports Group to apply its

techniques to apparel sales. Talks began when Eglen and Lids co-founder/COO Scott Molander had a chance meeting on an airplane.

Lids now plans to adopt this strategy to help move some of its end-of-season clearance inventory.

“We have so many fashion items that are in and out of our stores and what we want to do is mark those down at the end of the season,” Molander explains. “Let’s say we have an orange hat in all baseball teams; the Yankees are usually the team everybody buys first. We want to hold our margins on the Yankees hats, but sell more in a team like the Houston Astros because demand won’t be as high, so we’ll mark those down so there’s more of an even flow of goods.”

He claims that the revolving door created by trades and free agency also presents challenges to apparel companies.

“When a player gets traded, we’re going to dynamically price (his jerseys) down because it’s no longer worth anything for the current team,” Molander states. “Just like Trent Richardson (who was traded from the Cleveland Browns to the Indianapolis Colts

during the 2013 season) – those Browns jerseys should be marked down. We’re in a business where players get traded all the time.”

Lids’ executives were attracted to Digonex because of its unique system.

“There are lots of companies (doing dynamic pricing), but they’re all closeout sites,” Molander asserts. “And for the most part, they all developed their own software for dynamic pricing and don’t license it out. Digonex was really one of the first companies (that had its own). Other companies did it, but it was somebody sitting at a computer, pushing a button – not the way Digonex does it with algorithms.”

Fan reaction

Regarding ticket pricing, Peludat explains one challenge with fluctuating numbers (although Purdue is only using the strategy for two or three games this year) is communicating the process to customers.

“We want to let our season ticket holders know this won’t impact them, but we want to communicate why we’re doing it and the reasons behind it,” he articulates, stressing they’ll be locked in at prices below what single game tickets go for. “From a single game standpoint, you may get some people claim we’re just gouging for the best games, and that’s a natural reaction. So we communicate that we’re not in this for every last penny, but as games get more popular, we plan to use it so we encourage fans to buy as early as possible.”

The school reports positive financial results from using the strategy for pricing football games against Nebraska and Notre Dame this season.

“Down the road, the more success we have on the field will impact how often this strategy comes into play,” Peludat reveals. “We see what people are willing to pay for big games when the team is doing well via StubHub and places like that. I don’t think we’ll ever approach the ridiculous total some people will pay (on secondary markets), but it gives us flexibility to meet in the middle to some extent.”



Dynamic ticket pricing allows Purdue University’s football program to achieve greater revenue potential when demand is high and rewards season ticket holders for buying early.

RESOURCES: Jan Eglen, Digonex, at www.digonex.com | Scott Molander, Lids, at www.lids.com | Chris Peludat, Purdue University, at www.purdue.edu