

A Work Project, presented as part of the requirements for the Award of a Master Degree
in Management from the NOVA – School of Business and Economics.

National Geographic Partners: Identify the next big business opportunity for the
National Geographic brand and develop a full-fledged business plan & go-to-market
strategy to make it real in Iberia:

LOCATION, PRICING, STORE DESIGN AND DISPLAY

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January 6th, 2017

Table of Contents

LOCATION.....	4
PRICING	7
STORE DESIGN AND DISPLAY.....	9
References.....	14

List of Abbreviations

NGE: National Geographic Experience

NGEE: National Geographic Escape Experience

EE: Escape Experience

ER: Escape room

TR: Traditional room

CBD: Central Business District

MSA: Metropolitan Statistical Area

OR: Occupancy Rate

LOCATION

Considering the target defined previously, from the different types of location available for retail stores (Levy and Weitz, 2014), the one which fits NG Escape Experience is an unplanned urban location such as the CBD, or the main street. These areas are characterized by being traditional downtown business and shopping areas in the city, respectively, that by having an active daily activity, draw a lot of people into the area mainly during the week. Usually, in central business district and main streets there is also a high level of pedestrian traffic and limited vehicular traffic, due to the parking problems. Urban locations are becoming more and more trendy and there has been an increasing offer of entertainment activities in the CBD, attracting in this way younger people to the area. Furthermore, these areas are more limited to car traffic flow, which leads people to use public transportation and walk – high pedestrian flow and public transportation attracts tourists.

Considering this, the used criteria to choose the areas to locate the NGE flagship store, were the following: (1) select the MSA in Spain and Portugal with more than 500,000 inhabitants (Appendix 1.1), and then select the top two in Spain and consider the only two MSA existing in Portugal. After this selection, it was taken into consideration only the principal municipality's population of each area (Appendix 1.2); (2) consider the Millennials population in each municipality (Appendix 1.2); (3) consider the average occupancy rates of the best ER in each municipality selected; (4) consider the location of the top 20 escape rooms identified in the market research, and finally (5) consider the selected areas' purchasing power.

Concerning the competition, it is important to analyze the consumer's shopping behavior. The escape game activity is usually pre booked, which means it can be considered as a more involving purchase decision. The group starts by having an idea of the experience

they want to have, evaluate the market options – as mentioned in the research analysis, location is part of the main criteria in the moment of choosing the escape game - and decide it as a group, although they do not have a well-developed preference for an ER company. In this sense, customers will seek information and will be willing to spend time at home comparing alternatives – comparison shopping. By locating the NG Experience in the same area as the other alternatives, the location will have lower weight when evaluating the options – leading customers to give more value to other factors, such as the brand and the differentiated rooms. Moreover, as mentioned before, the competitive environment among escape rooms is very friendly, affecting demand in a positive way - since this industry wants to create awareness of the concept and noticing that customers do not repeat rooms and the escape rooms companies may lack capacity, escape rooms companies usually recommend competitor's rooms, and in this scenario it is convenient to be located in the same area.

Given the above points, the selected municipalities in Portugal are Lisbon and Porto, and in Spain are Madrid and Barcelona. Reviewing the B2C Millennials population in these municipalities, Madrid stands out with 962,602 Millennials inhabitants, followed by Barcelona (313,978 Millennials inhabitants), Lisbon (92,622 Millennials inhabitants) and Porto (42,430 Millennials inhabitants). In terms of average OR, Madrid also stands out, having an OR representation of 88% for the top ER in the city (analyzed in the market research, see group report), followed by Barcelona (75%), Lisbon (68%) and Porto (42%). Additionally, by evaluating the competition, the top twenty escape rooms are located in the following cities: (1) Barcelona, (2) Madrid, (3) Valencia, (4) Lisbon, (5) Bilbao, (6) Seville, (7) Porto, (8) Malaga and (9) Alicante. A GfK (2016) purchasing power study for Spain shows both Madrid and Barcelona to be among the top ten provinces in the country with purchasing power values above the national average (Appendix 1.3), and in what

regards Portugal, according to INE data from 2011, the percentage of purchasing power in the Lisbon metropolitan area represented 27% of the national value and the metropolitan area of Porto represented 17% (Appendix 1.4).

By gathering all the information, it was decided to open the first NGE flagship store in Madrid which seems to be the ideal location considering the numbers presented earlier.

In order to select specific sites to locate the NGE store, the most relevant criteria are the following: (1) High traffic flow and accessibility, (2) Parking facilities near NGE store, (3) highly visible site to attract and reach consumers and (4) Prestige/Historical site.

Regarding the traffic flow and accessibility it is important to have a high volume of traffic and pedestrians that pass by the site and great accessibility such as highways, street and traffic lights and access by public transportation (e.g. train, subway and bus). Parking facilities near the site of the flagship store is also a relevant factor, since during the weekend for example, people who live outside the urban location usually prefer to move by car. NG Experience is a concept store and, besides the main business which is the escape rooms experience, the store aims to reach Millennials in general, what makes the visibility of the site a very important element to enable potential customers to see the store from the street. Additionally, to be aligned with the brand and raise a favourable attitude towards the NGE flagship store, it is also relevant that the building where the store is located has a prestigious look and an historical architecture.

Considering an expansion of the business, after the opening of the first flagship store in Madrid as previously mentioned, it was decided to open two more flagship stores in the following years, and a small version of the store – the NG Escape Experience providing only the escape games service - in Porto due to the constant growth of this city (see Appendix 1.5 for the detailed store opening plan).

PRICING

First of all, it is important to mention that for the pricing analysis that will be presented, it will be only considered the escape game experience within the NGE flagship store (the solution presented for the project), since it is the primary business and since the other chargeable area, i.e. the coffee area will be the operational partner's responsibility (see NGE in Practice in the group report). NG merchandising prices correspond to the already existing items and respective prices in the market (see Appendix 2.1 for merchandising prices).

In order to set the final prices for the ER, internal factors such as the retail strategy, marketing objectives and costs, and external factors such as the demand behavior and competition, have to be considered. The selected targets for the NGE project were Millennials, as the primary target, and companies and schools, as secondary target. Regarding positioning, the NGE point of difference is to provide the most immersive and interactive team experience in the Iberian market of entertainment – present a unique and premium offer – and this will be the basis information to define the prices for the EE. Other point to ponder are the costs. For the EE, the main costs are included in the initial investment of the project (CAPEX) encompassing for the room's design and room's construction, being the on-going costs, i.e. COGS, the fixed costs (the personnel needed to operate the EE) and variable costs (water, light, Wi-Fi) that we considered that do not have a big impact in the final price. In what concern the consumers, through the survey findings (Appendix 2.2), it was concluded that the average willingness to pay for the ER presented was €18.67, representing 18% more than the average willingness to pay for a traditional ER (€15.81), and the technology and wow-factor elements represent the most attractive elements in the business. Through the market research analysis, we calculated an average price in Iberia of €11.76 and €12.75 for the top 20 ER. However, to set the final prices for NGE ER it was considered the average prices per person, for each group

size, of the best ER of each the locations chosen for the project (Madrid, Barcelona, Lisbon and Porto) (Appendix 2.3).

Regarding the general pricing approaches presented by Kotler, Armstrong, Saunders and Wong (2002), NGE ER will follow a value-based pricing (see Appendix 2.4 for detailed analysis), using the customers' perceived value as the essential element to define the price. In what regards pricing strategies, it was chosen a skimming pricing strategy - according to Nagle and Hogan (2011) skim prices are high in relation to what most buyers in a segment can be convinced to pay - due to the unique offer (i.e. high quality of technology included, the integrated storytelling and the high quality of the escape design, the store environment and the premium partners) and the presence of the NG brand image and logo (this value is captured by the 20% added value to the competitor's average prices). The main objective of this pricing strategy is to obtain the maximum revenue in the market before competitors create substitutes services, in this case. Once competitors launch substitutes services, the maintenance of this strategy can be a challenge, however it must be considered the NG brand image and logo as a powerful element, ensuring in this way high OR and the practice of the defined prices. Moreover, the majority of the existing ER companies do not have financial capacity to invest in a substitute of NGE.

Prices were defined differently for each target. Starting with Millennials, as mentioned before, prices were defined by adding the 20% value, capturing of the NGE unique value, to the average prices per person of the best ER in each country, for the 60-minute rooms (Appendix 2.3). The price-adjustment strategy (Kotler, Armstrong, Saunders and Wong, 2002) was chosen to define the prices for Millennials in Spain and Portugal, and to define the prices for the specific criminal science room. First, we refer to location pricing (different locations are priced differently, even though the cost of offering each location is the same) by having different prices for Portugal and Spain. Second it was used

product-form pricing (different versions of the product are priced differently, but not according to differences in the costs) for the criminal science room, due to the 90-minute game (see Appendix 2.6 for the detailed final prices). As for the companies' target, special offers were defined with different prices, being applied the optional-product pricing as a product-mix pricing strategy. Regarding this, prices were defined through the average price per person defined for Portugal and Spain for the Millennials target, plus an added value correspondent to the competitor's benchmark added value for such special offers (see Appendix 2.7 for the detailed final prices and the special offers). Finally, the pricing offers for schools were based in a product-bundle pricing (offer different products at a reduced price), using discounts for each defined pack due to the fact that the game has the duration of only thirty minutes (see Appendix 2.8 for the detailed final prices and the created packs).

In addition to this, it is important to include in the pricing analysis the financial sensitivity analysis towards a price change (Appendix 2.5). Among the conclusions, it was calculated a contribution margin of around 98% which represents a big price leverage on profitability, being an incentive to reach the maximum OR.

STORE DESIGN AND DISPLAY

Before defining the store layout and the store elements, it is necessary to identify the store design objectives for NG Experience flagship store. These are the following: (1) the store design has to be consistent with the retail strategy which is aligned with reaching Millennials and build a closer relationship between the NG brand and the customer, leading to the ultimate goal of providing a unique and amazing experience in the store, by involving the customer in a clean, warm, cozy and comfortable, yet modern environment, inspiring in a way that only the NG brand can inspire, (2) other objective is to provide hedonic benefits to make customers spend more time in the store (Levy and

Weitz, 2014) - the store will provide an entertaining and educational experience by offering the escape rooms experience as the main entertaining business, and the other experience areas that can be educational, such as the explorer area and the study area near the bar, (3) Another important objective is to motivate customers to make unplanned purchases (Levy and Weitz, 2014) - for customers going directly to the escape room experience the goal is to motivate them to purchase merchandise or to spend time in the bar area after the experience and for the customers entering in the store without any particular goal, the objective is to show them all the experiences in a clear and enthusiastic way, to create the desire of experimenting the escape rooms and spending on merchandise and in food and beverages.

To define the store design, the following elements has to be discussed: (1) layout, (2) signage, (3) feature areas. Considering that it would be a flagship store and that it will have two floors, in which the first one includes the bar area, the merchandise area and the explorer area, and the second one is totally dedicated to the escape game experience, the layout which fits the NG Experience the most is the free-form layout (Appendix 3.1 - 3.2 and 3.4). There won't be a well-defined traffic pattern, so it can be risky in a way to get the main customers' attention to the escape room business, however the store will be spacious and an opened concept and this risk can be softened with signage.

Concerning signage element, this will be important to clearly define and present the different areas to the customer. Category signage will be used for all the experience areas and for the basic areas such as, bathrooms, lockers and waiting room in the escape experience floor – the category signage will have the NG yellow logo followed by salient letters of the respective area, with soft light behind the signage to create a premium and comfortable feeling – and digital displays - taking into consideration the target market, it makes perfectly sense to include visual content delivered electronically through digital

displays. In the entrance wall for the escape room experience it would be interesting to have a digital display (screen panel with touching system) where customers could have access to the concepts available with small clips about them and also have access to the slots available being able to book the ER.

The feature areas – areas that are designed to get customer’s attention – will be the following: (1) Windows (Appendix 3.4): the windows of the building will be large and big, until the first floor, all in glass with a mist of historical style, to make the store highly visible and attract the curiosity of the people passing by and represent in a way, the greatness of the scientific and nature elements that characterize the NG brand; (2) Entrances (Appendix 3.6): the store entrance has a big NG logo right at the front wall to surprise the customers and create positive expectations. In this area the customers will be able to take pictures with the logo as background. The entrance to the escape room experience will have a sort of a mystery effect, in which the customers will only be able to see the stairs in a darker environment, creating the illusion that upstairs there will be a whole new “NG world waiting for them”; (3) Books and Magazines wall (Appendix 3.5): near the bar and study area, there will be a whole wall with a shelve full of NG magazines and books. This wall will give color to the store (magazines have yellow covers) and will transmit a feeling of knowledge, which is attached to the brand, and enables to create the unique experience of joining entertainment with education; (4) High ceilings (Appendix 3.4): this is not a feature area, however it is an important element of the store. High ceilings make a big impact and transmits a feeling of greatness, historical and prestige/luxe; (5) NG Café area and Cash Wraps/Point-of-Purchase: this area will include tables, sofas and chairs with a modern style yet comfortable and cozy, by having wood material and clean and warm colors. This cozy environment will welcome millennials and even workers to spend time in the store enjoying the space which meets the brand

objectives and can lead to unplanned purchase. The merchandise counter will be inserted in the bar area; (6) Explorer area: This area will have different interactive activities and exhibitions, opened and visible, to engage customers and make them spend more time in the store.

Considering now the space management, it involves three decisions: (1) the allocation of the store space to merchandise, (2) the location of the different experiences in the store, and (3) the size of the store. The total size of the store was estimated to be 470 m², in which the primary business, i.e. the escape game area represents 68% of the store total space if counting the rooms, waiting area, lockers and control room. As mentioned before, three rooms will have a maximum capacity for six people and the one room will have capacity for seven people (due to the fact that it is a 90-minute game). The secondary business - coffee area which includes the merchandise area – represents 19% of the store total space (Appendix 1.3). The coffee area plus the study area will have a capacity for 36 people (considering an estimation of 2,5 m² per person).

When it comes to the location of each area in the store, as the focus of the concept store is the escape room experience, the entrance of the NG escape experience area will be located near the entrance of the store, in order to get the first attention from customers. Also, the exit of this experience will be at the end of the store (near to the lounge and coffee areas), in a way that escape room business can be integrated in the whole store. The lounge area will be next to the escape room experience exit, since the objective is that this space will be mostly used by groups (e.g. schools and companies) to do debriefs and have snacks, after the experience. Finally, the bar and study area, as well as the merchandise will be located in the whole right area of the store - when the customers enter in the store, they usually look almost right away to the right side and will be able to see

an open space within a comfortable, cozy and modern environment, incentivizing them to spend more time in the store, exploring it (Appendix 3.1-3.2).

To provide an amazing and unique store experience, engaged with the NG identity, it is necessary to define an appealing store atmosphere. The following elements have to be considered: (1) Lighting: lighting color levels and contrasts defines the store ambience and enhances the store image. On the ground floor the lightning goal is to set the mood for customers, to create a warm, relaxed and comfortable feeling around the bar and study area and also at the private area. Lighting will also be important to highlight the different experience areas. On the first floor, the lighting will be darker to provide an experience involving more suspense; (2) Color: the store will have a mixed between cool colors (white and green) and warm colors (yellow, wood color). The first ones, have a peaceful and calming effect which leads customers to appreciate the experiences more favorably, and these colors will be represented at the walls, ceilings, sofas and plants. The second colors mentioned produce emotional and active responses, and can be found in the wood tables, the big shelve and props in the bar and merchandise area; (3) Music: the NG Experience store wants to provide a relaxed, modern and comfortable space and music is an essential element to transmit those feelings. Regarding it, Starbucks was considered a good example for the NGE concept store; (4) Scent: The overall scent in the store should be attached to wood and nature. During holiday seasons the scent can be proportional (e.g. cinnamon and pine scents during Christmas). It is also important to mention that the store atmosphere, as well as the incorporation of free Wi-Fi and plugs in the store will allow to create a student friendly environment, contributing to reach the primary target.

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