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.

"How can FOX Networks Group become a successful Live Events & Experiences player in Iberia?"

PRICING STRATEGY

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Note: Due to the nature of this individual report, some contents may be similar to the main thesis.

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1. Pricing

Price can be defined as the amount of money charged for a product or a service in exchange for the benefit obtained from using the product or the service. Besides that, price also conveys to the market the company's envisioned value positioning of its product *(Kotler & Keller, 2012)*.

On one hand, the goal of price, from the consumers' perspective, is to denote how the value created can be divided properly as an incentive to acquire a product or service. On the other hand, from the company's perspective, the goal of effective pricing strategies is to cover the costs related with the value-creation effort providing funds for profit and reinvestment in the company (Dolan & Gourville, 2014).

Overall, price can be interpreted as what customers give up with the purpose of gaining the benefits of using a specific product or service. Thus, a successful pricing decision should implicate an ideal blend of internal financial commitments and external market conditions, and not a compromise between them *(Nagle & Smith, 1994)*.

1.1. Pricing Approaches

Despite existing several pricing approaches that can be followed, the most common ones are **cost-driven**, **value-based/customer-driven** and **profit-driven pricing** [Exhibit 1].

The primary responsibility in **cost-driven pricing** for a pricing decision is based on financial and accounting purposes. Consequently, its main objective is to obtain a reasonable return over the full cost of the product by reducing performance evaluation for each product and service *(Nagle & Smith, 1994)*. Since costs differ throughout the business and its conditions, it is difficult to determine the precise costs that need to be covered. Thus, **cost-driven pricing** approach "leads to overpricing in weak markets and underpricing in strong ones", which is the contrary course of a prudent pricing strategy *(Nagle, Holden & Zale, 2014)*.

Another relevant pricing strategy is **customer-driven pricing**, which means basing the price of a product or service on its value to a certain group of customers *(Dolan & Gourville, 2014)*. By concept, this approach is consistent with value-based pricing since marketing and sales are in a better position to understand the customer's value. Although the main drive behind this pricing strategy is to fulfill the customers' value it does not mean that the company does not fulfill its main goal: applying an effective pricing strategy in order to be profitable. *(Nagle, Holden & Zale, 2014)*. In this strategy, finance and accounting are still considered as an important factor by providing relevant cost information, although the ultimate decision is made by Marketing and Sales *(Nagle & Smith, 1994).* More than covering costs, key inputs such as competitors' prices, customers' willingness to pay (through market research) and price sensitivity analysis are crucial to effectively set a price *(Nagle & Smith, 1994).*

The goal of **profit-driven pricing** is to maximize "profitability by making tradeoffs between price changes and changes in sales volume" *(Nagle & Smith, 1994).* In this strategy, pricing is defined by competitive conditions which work as a tool to achieve sales objectives *(Nagle, Holden & Zale, 2014)*, basically following the competition. Despite price-cutting being a quick and simple method to increase sales, it is also a poor financial decision since it can be easily matched. This price cut method only offers short-term advantage at the cost of permanent lower margins *(Nagle, Holden & Zale, 2014).* The truth is that advertising and product differentiation do not achieve sales objectives as quickly as price cuts do, however their benefit are usually more sustainable and cost-effective, maximizing profitability in the long term *(Nagle, Holden & Zale, 2014).*

Whereas in the past companies were mostly focused on costs, nowadays it is visible the shift that it is been made towards customer-centricity in designing products and services by understanding consumers' expectations and needs *(Forbes, 2016).*

Wrapping up, pricing should be **value-based** instead of cost-based, establishing the price on the value it represents for consumers. Nevertheless, consumers are able to deploy sellers to push prices down to a point where it does not represent its value anymore *(Nagle & Smith, 1994)*, reason why marketing and sales divisions must work to increase consumers' willingness to pay *(Nagle & Hogan, 2011).*

1.1.1. Value-based Pricing

Pricing decisions ought to start with the customer value, as well as other marketing mix decisions. When consumers buy a product or a service, they are giving up something of value (the price) in exchange for something of value (its benefits). Hence, effective and customer-centric pricing implicates an understanding of how much value consumers see on the benefits they obtain and establishing a price that captures this value *(Armstrong, Kotler, Harker & Brennan, 2009).*

Although designing and implementing a true **value-based pricing approach** demands strong commitment and hard work, the returns on that work may be significantly positive. To follow a **value-based strategy**, there are three critical inputs that need to be considered. The first one is the **true economic value (TEV)** of the product/service to the customer, the second one, is the **perceived value (PV)** to the same customer and the final one is the organization's **cost of goods sold (COGS)** *(Dolan & Gourville, 2014)* [Exhibit 2].

Having in mind customer's needs and preferences, the **TEV** is the value a completely informed consumer attributes to a product or service. "If the buyer has several available options to choose from, any assessment of **TEV** has to be relative to the next-best alternative" and to performance factors or benefits which justify the price differential. Thus, it can be calculated as: **TEV = cost of the next-best alternative + value of the performance differential** *(Dolan & Gourville, 2014).*

Despite representing what a fully informed and rational buyer should be willing to pay for a product/service, **TEV** does not reflect a consumer's willingness to pay because it is driven by the value the consumer perceives. Generally, **PV** is less than **TEV** since the purchaser may not be conscious of the benefits of the product or may be skeptical about such claims and importance *(Dolan & Gourville, 2014).* That is why sales and marketing communications are accountable for raising this perception of value, presenting features that the consumer perceives as sufficiently valuable to justify the price *(Nagle, Holden & Zale, 2014).*

The final critical input is the organization's **COGS,** representing the fully loaded variable costs of production. **COGS** can also be seen as the lower frontier a company is keen on setting in terms of price *(Dolan & Gourville, 2014).*

In conclusion, companies may establish the price between the ceiling price based on consumers' perceptions and the floor price based on costs *(Kotler & Armstrong, 2012).*

1.1.2. Pricing Strategies

Considering the strategic importance of consumer value while designing a pricing strategy, pricing objectives shall be defined in terms of the fraction of value captured with price. There are three different pricing strategies for establishing prices. Those are **skimming the market, penetrating the market,** and **neutral market pricing** *(Nagle, Holden & Zale, 2014).*

Skim pricing is a pricing strategy where the initial price of a product or service is set relatively high. This strategy intents to gain high margins within large sales volume and it usually setting prices higher than what most consumers within a segment are persuaded to pay. Accordingly, this strategy enhances instant profitability only when the profit from selling to quite price-insensitive customers surpasses the one from selling to a larger market at a lower price *(Nagle, Holden & Zale, 2014).* These market segments are often non-price sensitive, associating high value on a product's differentiating attributes. Therefore, skim pricing mostly involves a considerable effort to communicate the benefits that justify a high price *(Nagle, Holden & Zale, 2014).*

Penetration pricing is a strategy that sets prices low enough to appeal and retain a large group of consumers. Penetration prices are not necessarily cheap, although they are low comparative to the perceived value in the target segment *(Nagle, Holden & Zale, 2014).* This strategy is only effective if a great number of consumers are willing to change suppliers in answer to lower prices. Moreover,

penetration pricing is a viable option if incremental costs correspond to a small portion of the price, so that per sale a great contribution to profit is provided *(Nagle, Holden & Zale, 2014).*

Neutral pricing is mainly seen as the most common pricing strategy, meaning that considering all features and benefits, including the price itself, it is set so that consumers are relatively indifferent between the company's product or service and its competitors. Moreover, it implicates a strategic decision not to use price as a tool to obtain market share, while not allowing price to be a restriction itself *(Nagle, Holden & Zale, 2014).* Generally, firms adopt a **neutral pricing strategy** since the market conditions are not always enough to support a skim or a penetration strategy. Nevertheless, the aimed balance of this strategy is to set prices high enough to transmit value to the consumers, increasing their willingness to pay, while low enough to penetrate the market. In addition, neutral prices do not have to be equivalent to the competition or near the middle of the range. In principle, a neutral price can be the highest or lowest price in the market and still be neutral *(Nagle, Holden & Zale, 2014).*

1.2. Business Models Approach

As further explained, for the three Business Models a **value-based approach** and a **neutral pricing strategy** would be applied.

1.2.1. FOX Fever: *Family Guy* Edition

FOX Fever: Family Guy Edition aims to offer an event with a wide range of activities that surpasses the experience of the existing theme parties, providing a strong bond with **FOX Networks Group (FNG)** series and its exclusive content, which supports a value-based approach with a neutral pricing strategy.

True Economic Value

To assess the **TEV** and since the buyer has several available options to choose from, its assessment must be relative to the next-best alternative *(Dolan & Gourville, 2014)*.

As referred in the main report, in Portugal, the next-best alternative is priced between 15€ (for most the parties) and 22 to 25€ (for outside the city or special party editions), both having identical event's duration and capacity [Exhibit 3].

Considering the similarity between the two options, the value of the performance differential will be quite small. Thus, the final prices for **FOX Fever: *Family Guy* Edition** will be very close to the mentioned next-best alternative. The prices for this event are 15€, 20€ and 25€, allocated in three different selling phases (with one drink included until 1.30am), as stated in the group report. Considering the most usual price of 15€ for the next-best alternative, a performance differential of 5€ was set for the second round of tickets and 10€ for the third one. This performance differential is associated to the value that ***Family Guy*** series adds to this experience, as well as the considered competitive advantage that **FNG** has in creating and transmitting good quality content and positive brand image in organizing theme parties.

Moreover, since the ticket price was established in three phases, it will incentive price sensitive consumers to buy the tickets in the first round while they are priced at 15€. Additionally, as the first round sells out and the price goes up to 20€, it will increase consumers desire to go and therefore pay for the tickets. Since the third round is the last chance to buy the tickets, less price sensitive consumers will buy them at 25€ with the fear of missing out (FOMO).

Assuming the Spanish population has a superior willingness to pay for this kind of experiences, a percentage difference of 10.62 between the Spanish and the Portuguese markets was contemplated (for more information see the Financials section in the main report).

Hence, the prices will be established at 17€, 22€ and 27€, as mentioned in the group report.

Perceived Value

In order to understand the value the customers perceive, a quantitative research was directed to assess their willingness to pay. In fact, one effective way to conduct this research is to study consumers' beliefs about the precise benefits offered by the event. By having done that, the likeliness of attending **FOX Fever: *Family Guy* Edition** was 7.49 (in a scale from 1 to 10) being the concept well received among the sample (see Quantitative Research on the main report). Moreover, potential consumers said they would be willing to pay on average 18.43€ for a ticket with one drink included. Therefore, the established price was as well established to meet consumer's expectations.

Cost of Goods Sold

In what concerns **COGS**, it represents the full variable costs of producing the goods sold in a firm. For instance, if a company sells at an equal or inferior price of COGS, there is no chance of profitability. However, if the product is sold at a price overhead its COGS, it is possible to turn into profit.

In this case, COGS for the partner were computed by taking into consideration the actual number of drinks that would be sold in each night. Since the initial investment had to be made in excess, the calculations were made assuming that each consumer buys on average 1.9 drinks per party (information based on an experience supplier). In order to compute the excess value, it was necessary to subtract the actual number of drinks to the initial investment in excess (for more information please consult the Financials section in the main report).

Finally, as FNG will deliver the concept of the event fully designed and ready to be implemented (5%) and will provide the content availability from its series productions (15%), the company shall receive a total of 20% on royalties (from sales of tickets, drinks and drinks' sponsors).

1.2.2. FOX *Prison Break* Bar

Concerning **FOX *Prison Break* Bar**, a **value-based** and **neutral pricing** are also applicable. This business model intents to provide a full bar experience in prison, embodying completely the **FNG**'s series: *Prison Break.*

True Economic Value

The next-best alternative was not considered since there are no series related or theme bars in Portugal or Spain. Looking at the market, one alternative could be, for example, going to a cocktail bar. However, that kind of bars do not provide a completely different environment experience where consumers could feel they are in another dimension, in this case, *Prison Break's* dimension. **FOX *Prison Break* Bar** is more than a place where people can go to have a drink, it is a fully prison experience where consumers can have fun, cracking codes, playing games while drinking like a prisoner. Therefore, consumers would not be able to choose from very similar options.

Perceived Value

As stated previously, **PV** is usually less than **TEV** due to the unawareness of the benefits or skepticism about those claims by the potential buyer *(Dolan & Gourville, 2014)*.

Therefore, a quantitative research was followed to understand the value for consumers. Evaluating the likelihood of going to the bar through the quantitative questionnaire, the average was 7.64 with a really strong acceptance (see Quantitative Research on the main report). Regarding the perceived value, consumers referred they would be willing to pay on average 9.87€, being the maximum price referred 80€. In this case, it is understandable that respondents did not completely understand all the features and/or benefits of the experience, since there are no comparable bars in Iberia. Nevertheless, after doing an international benchmark analysis [Exhibit 4], the average price of the entry ticket to a similar theme and/or pop up bar is on average 30€.

Having said so, the entry price established would be 20€ for Portugal and 22€ for Spain (assuming the percentage difference in general consumer prices), including one cocktail. This price is based on the average price consumers mentioned to be willing to pay with the benchmark price analysis. In addition, as it is expected some consumers to drink more than the cocktail included, those will be set fitting the market prices (10€ on average).

Looking at the market, it is also verified that nowadays consumers (specially Millennials) value more experiences over owning things because memories of those experiences can last evermore (Forbes, 2016). Based on this shift on consumers' minds and since this business model is not a common bar, but a prison bar experience, it is trusted that **FOX 'Prison Break' Bar** will be able to capture its TEV. Furthermore, a firm's marketing efforts can often influence the level to which PV approaches TEV. In an ideal perspective, a skeptical consumer with a low PV should be transformed into a rational and fully informed buyer where PV meets TEV *(Dolan & Gourville, 2014)*.

Cost of Goods Sold

In computing **FOX *Prison Break* Bar's COGS** for the partner, it was considered beverages' costs forecasts as well as appetizers' costs estimations for the six months' duration (time the bar will be open). For the beverages' costs estimations [Exhibit 66 on the main report], it was necessary to made some assumptions regarding the consumption of one extra cocktail (50% on weekdays and 70% on weekends). Regarding the appetizers' costs estimation [Exhibit 67 on the main report], it was assumed 100% of consumption since it will be served a portion of appetizers with the cocktails, without charging it to the customers (for further information please consult the Financials in the main report) [Exhibit 68 on the main report]. From tickets, cocktails' sales and drinks sponsors, **FNG** must receive a royalty of 20%.

1.2.3. FOX Crime Scene

Finally, for **FOX Crime Scene**, it will be applicable as well a **value-based approach** with a **neutral pricing strategy**. This omni-channel murder mystery game will allow consumers to play the role of detectives in a realistic village where several murders happened. This experience has a high level of interaction through an app, but also with other player and the actors.

True Economic Value

Since it is a completely new concept in the market, the next-best alternative is not considered. Although there are several escape rooms in the Iberian Market, which could be considered as the most similar concept to **FOX Crime Scene**, none of them offers such high level of interaction or is related to a crime series/show from a notable content producer company. Thus, the price of an experience that involve actors, interaction with the series characters and a recreation of a village, among many other features, cannot be compared to an escape room. Accordingly, it could not be a starting point for the price.

Perceived Value

Assessing customers' **PV** usually requires market research, reason why a quantitative questionnaire was pursued, with a consumers' likelihood to attend this experience of 7.54. Additionally, with all the features scoring above 7 and a total average of 7.77, the experience's features were considered valuable by the respondents (for more information see Quantitative Research on the main report).

The average willingness to pay mentioned for an individual ticket was 21.7€. This experience will have three different pricing options based on the consumers' necessities. In Spain, the first option is an individual ticket, priced at 26€ per person. The second option is buying a group pack instead of the individual one, which will have a cost of 135€ (which, in a group of six, leads to 22.5€ per person) for groups with a maximum of six people. By doing this, it is being created an incentive for consumers to buy the group pack in order for them to save money and attend the experience with already formed groups, ensuring full occupation. There will also be the option of renting the whole space for the experience by paying a total price of 600€, which corresponds to up to thirty-six people per slot (leading to approximately to 16.66€ per person if divided by thirty-six people).

In case it is verified that this experience is implemented in Portugal in 2021, the different pricing options will be regulated to the consumers' purchasing power in Portugal (assuming a difference in general consumer prices), meaning 23€ for one person, 113€ for the group pack and 500€ for renting the whole experience. As stated before and based on similar business models in terms of royalties, it is assumed a royalty of 20% for **FNG** over the tickets' sales.

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Appendices

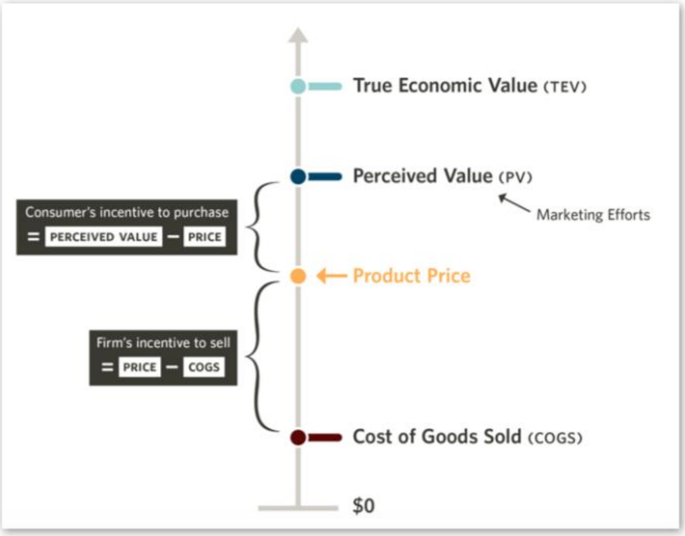
Exhibit [1]: Approaches to Pricing

Table 1 Approaches to Pricing

	Cost-Driven	Customer-Driven	Profit-Driven
Pricing Responsibility	• Accounting and finance	• Marketing and sales	• General or senior management
Managerial Pricing Philosophy	• Financial prudence requires each unit of sale to achieve a target return over its full cost.	• Market demands require that products be priced to reflect what customers are willing to pay.	• Long-run profitability requires that operating managers balance price and volume effects on profit, taking into account costs, customer response, and competitive reaction.
Key Inputs to the Pricing Decision	• Variable costs • Fixed costs, allocated per unit (as "burdens") • Unit sales forecast • Unit profitability objectives	• Prices for competitive products • Prices customers are willing to pay • Unit variable costs • Unit sales objectives	• Variable costs • Incremental fixed costs • Profit contribution • Assessment of customer response • Assessment of competitive reaction • Assessment of strategic implications
Performance Measures of Price Policy	• Unit profit • Variances from planned costs, revenues, and profits	• Unit sales volume • Dollar sales volume • Market share	• Change in profit contribution • Change in sales volume yielding incremental contribution
Decision Focus	• Price levels relative to full cost	• Sales levels relative to sales objectives	• Current profit contribution relative to potential profit contribution
Resulting Pricing Decisions	• Tactical • Functional isolation	• Tactical • Functional isolation	• Strategic • Functional integration

Source: **Nagle, Thomas T., & Smith, Gerald E. 1994. Financial Analysis for Profit-Driven Pricing. Sloan Management Review.**

Exhibit [2]: The Value-Pricing Thermometer



Source: **Dolan, Robert J., & Gourville, John T.** 2014. Pricing Strategy. Core Curriculum: Marketing. Boston: Harvard Business Publishing.

Exhibit [3]: Next-best alternative for **FOX Fever: Family Guy Edition**

	FOX Fever: Family Guy Edition	**Next-Best Alternative**
Event's theme	Family Guy [FNG's series content]	90's
Space's capacity	2500 people	1800 - 2500 people
Duration of the event	8 h [22pm - 6am]	7 h [23pm - 6am]
Tickets' price	15€, 20€ & 25€ [3 phases]	15€, 22€ - 25€
Average drink's price	€10	€11

Exhibit [4]: International Benchmark Analysis – Theme/Pop Up Bars

Theme/Pop Up Bar name:	**Location**	**Entry Ticket Price**
Alcotraz	London	£33.99
AQB - Immersive molecular cocktail bar	London	£30
Breaking Bad - themed cocktail bar	New York City	$45 - $49
London Dungeon Lates with cocktail	London	£25