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Pricing Tactics Used by Professional & Intercollegiate Sport Organizations

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Abstract 2014-245**

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9:20 AM**

**Poster
(Urban Room)**

Introduction

The purpose of this study is to better understand the current pricing tactics used by sport organizations in the professional and intercollegiate sport industry segments. Specifically, we seek to better understand reasons for pricing tactic use, profitability of pricing tactics, and the potential future for pricing in sport.

Literature Review

Much of the extant literature that addresses pricing of sport goods and services attempts to identify optimal pricing strategies. This includes the following strategies: Break-Even Analysis (Mullin, Hardy, & Sutton, 2007; Petrick, 2005), Cost-Plus Pricing (Mullin et al., 2007), Markup Pricing (Fullerton, 2010), Product Bundling (Winfree & Rosentraub, 2012), Condominium Seat Pricing (Winfree & Rosentraub, 2012), Capitation Pricing (Mullin et al., 2007), Promotional Pricing (DeVecchio, Krishnan, & Smith, 2007; Fullerton, 2007), Bid-Based Pricing (Fullerton, 2010), Participatory Pricing (Kim et al., 2009; Winfree & Rosentraub, 2012), What the Market Will Bear (Mullin et al., 2007), Target Return (Fullerton, 2010), Variable Pricing (Drayer, Stotlar, & Irwin, 2008; Rascher, McEvoy, Nagel, & Brown, 2007), Dynamic Pricing (Drayer, Shapiro, & Lee, 2013; Paul & Weingbach, 2013; Shapiro & Drayer, 2012), Personal Seat Licensing (Fullerton, 2010), Per-Seat Contributions (Reese, Brown, & Bennett, 2011).

This extant literature has addressed consumer perceptions and behaviors to multiple pricing strategies. In addition, these strategies are identified as the current methods used by professional and intercollegiate sport organizations. Therefore, these strategies were used in developing the framework for the current study.

Methodology

This study used a web-based questionnaire to investigate the knowledge and opinions of current sport managers, as well as the current use of pricing tactics across the sport industry. Using contact information provided on websites for an individual at most professional sport organizations (including major and minor league affiliates across multiple sports, the Women's National Basketball Association, and NASCAR tracks), as well as all NCAA Division-I athletic departments. The researchers obtained the contact information of one individual in serving as Chief Marketing Officer, Vice President of Sales, Vice President of Marketing, Director of Marketing, Chief Financial Officer, or External Affairs Officer. A pre-notification message, 21-item online questionnaire link message, and reminder message was sent to each email address.

Participants were first asked to identify the type of organization they work for, the league they compete in, and their specific job title. All participants were asked to identify how well they understood the structure and procedure for the pricing strategies mentioned above in the literature review. They were also asked who has control of prices set for the various sources of revenue for the organization and which type of pricing strategy their organization uses. We then asked participants to give us their opinion of pricing strategies that will be used in the future.

The researchers are still in the final stages of data collection, which will be completed on December 1, 2013. Currently, 58 sport managers from professional and intercollegiate athletic departments have participated in the questionnaire. The sample consists primarily of white, non-Hispanic (88%) males (94%) with an average age of 40.73 (SD = 8.50).

Results & Discussion

When asked to identify how well they understand various pricing strategies, sport managers stated they most understood the structure and procedures for Product Bundling (M=5.82, SD=1.33), Promotional Pricing (M=5.76, SD=1.11), Personal Seat Licensing (M=5.71, SD=1.47), Per-Seat Contributions (M=5.71, SD=1.47), and Break-Even Analysis (M=5.65, SD=1.35) (anchored at 1=Very Unknowledgeable, 7=Very Knowledgeable). On the other

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side, sport managers said they knew the least about Capitation Pricing ($M=3.35$, $SD=1.47$), Condominium Seat Pricing ($M=3.41$, $SD=1.57$), Participatory Pricing ($M=3.75$, $SD=1.47$), Target Return ($M=4.94$, $SD=1.53$), and Bid-Based Pricing ($M=5.00$, $SD=1.35$).

All participants suggested that tickets were overwhelmingly their primary source of revenue (93%). Another primary source of revenue was sponsorship (73%). Of the intercollegiate sport managers, 52% stated one of their primary sources of revenue was donations. However, only 11% stated the broadcasting revenue was one of their primary sources.

Responses to an open ended question regarding how the organization goes about setting prices for their primary source of revenue, the participants had several responses. The majority of responses were based on a “market analysis” theme. In addition, many stated historical price figures and methods were used. Finally, some stated that demand dictated their prices.

When asked to rank the pricing strategies in order of their use in their organization, the participants stated that “What the Market Will Bear” is the primary method, with 45% stating this is the primary or secondary method used. Other popular methods being used by these participants are “Break-Even Analysis,” “Product Bundling,” “Promotional Pricing,” and “Variable Pricing.”

To investigate where these managers believe the future of sport pricing is headed, we asked them to indicate what pricing strategies will be used in the future. Results suggest managers will use Promotional Pricing ($M=5.75$, $SD=1.08$), price according to What the Market Will Bear ($M=5.70$, $SD=1.42$), Dynamic Pricing ($M=5.56$, $SD=1.83$), Variable Pricing ($M=5.55$, $SD=1.56$), and Product Bundling ($M=5.38$, $SD=1.62$). On the other hand, they indicated that the future of pricing will likely not include Break Even Analysis ($M=3.66$, $SD=2.07$), Bid-Based Pricing ($M=3.84$, $SD=1.74$), Capitation Pricing ($M=4.09$, $SD=1.51$), Participatory Pricing ($M=4.13$, $SD=1.90$), and Cost-Plus Pricing ($M=4.16$, $SD=1.83$).

These results give sport pricing researchers a better understanding of the current uses of various pricing tactics in the sport industry, and well as their future use. This is important for pricing researchers, as it gives a guide for future research.

The currently study was exploratory, causing it to have several limitations. While we sought to include as many sport organizations in the study as possible, many were left out. Most notably, amateur sports were not addressed beyond NCAA Division-I schools. Another limitation is that many participants may not have price setting authority.