

## PRICING METHODS IN SPORTS

**Branko Petković, Dragan Životić, Milovan Mitić**  
Faculty of Management in Sport, Alfa University, Belgrade

### Abstract

The subject of this paper is to present the most important methods when it comes to pricing. Price is the main element of a marketing strategy because it is the only one that generates revenue, unlike other marketing mix instruments that generate costs. No matter how good sports products and services are, how creative the promotion is and how efficient the distribution is, a sports organization will incur losses if the price does not cover the costs. Therefore, it is important that marketing managers in sports understand the methods and the complexity of decisions in pricing because in this way they will decisively influence the position of the sports organization in the market, its competitiveness and profitability. The aim of this paper is to describe pricing methods as key processes affecting the profitability of a sports organization. On the other hand, a sports organization's policy on pricing is based on the goals and methods of pricing, which should strategically influence the extent of the impact on the sports market by providing a recognizable image of the organization and its products/services to the sports consumers. In the paper, the methods of analysis and synthesis were used, and so were deductive and inductive methods.

**Key words:** marketing, profitability, costs, demand, competitiveness

### Introduction

Price as the most visible element of the marketing mix plays an important role in the final shaping of the marketing offer. Regardless of whether we use the price on its own or in combination

with other instruments of the marketing mix, it should allow the realization of business objectives in the market. The price should not be determined independently of other elements, and it is supposed to blend together with the product, distribution and promotion into one comprehensive mix that provides the highest value for the customers. Marketing managers can look at the price from many angles, but certainly the most important angle is that of consumers.

In the narrowest sense, the price is the amount of money required for a product or service. In the broader sense, the price is the sum of the values that consumers exchange for the benefit of a possession or utilization of a product/service. In order to achieve positive consumer satisfaction, the benefits of a product/service must exceed the costs. In sports, this is especially strong because the total costs borne by the consumer often differ from the price of the product itself, for instance, the ticket price, where we have to take into account the costs such as transportation to the stadium or hall, a parking, souvenir shopping, fan props, etc., and all of this can significantly affect the purchasing decision.

Each product or service has a price which must be determined not only by profit-oriented organizations, but also by many non-profits, such as sports organizations. The aim of marketing in sports is not only to achieve the highest possible price for products or services, but it is also to form a price which, combined with other instruments of the marketing mix, can contribute to the achievement of short-term and long-term business goals.

The fact is that the price competition has been increasingly intensifying, which is due to the accelerated development of sports based on market principles. When making decisions on pricing, sports organizations tend to, on the one hand, make the price acceptable to consumers, and on the other hand to try and make a profit. These goals are often conflicting and may be diametrically opposed, which only complicates the strategic position and performance of a sports organization. We can say that the difference between successful and unsuccessful sports organizations is in the approach to the pricing process. In order to achieve a relatively a permanent profit, the price must become an integral part of the strategy of not only marketing,

but also of the sports organization itself. Therefore, pricing and price management are crucial activities that have a profound effect on the profitability and survival of an organization.

### **Theoretical bases**

This paper focuses on the methods of pricing and the development of pricing strategies. Understanding the ways in which prices are formed is an essential aspect of the decision-making process in sports marketing, as it largely stems from changes in the market arena. The aim of this paper is to describe pricing methods as key processes affecting the profitability of a sports organization. In the paper, the methods of analysis and synthesis were used, and so were deductive and inductive methods.

### **The general approach to price in the marketing mix**

Price as one of the main elements of a marketing strategy is an important determinant, which should facilitate the realization of business goals for sports organizations and convey the intended market value positioning of the product/service or the organization's brand. As an element of the marketing program, price is the most flexible, that is, it can be quickly changed as opposed to the characteristics of products, distribution channels, and even promotion, which require much more time. The price as a variable of the marketing mix is often manipulated with the aim of achieving a market effect of an increased profit. There are three reasons for this: Firstly, the price is a variable that is changing fast. Secondly, in certain market conditions (those where demand is elastic) the price is one of the most effective means. Thirdly, price is easy to see - changes are easily observed, leading to possible changes in consumers' judgment. (*Mullin, 1993, pg. 158*).

For every sports organization, it is vital that price is seen as a component of the consumer's judgment of the value of a product or service. Understanding this is important because most consumers relate directly to the value of the product/service. For some consumers a free product has no value, while, in contrast, an expensive product can have great value. We have a known example of

an attempt to attract the fans to the women's professional basketball league (WBL) in the US by selling tickets at low prices. The strategy proved to be wrong because the consumers estimated that the product had a minimum value.

Depending on the nature of the organization (private/social, profit/non-profit), marketing managers in sports must take into account the overall objectives of the organization when determining the price of a product: efficient use of resources, positive attitude of users, the maximum exposure of the product, profit, etc. Thus, if we look at the role and importance of price in sports in the context of the price of sports products, then the following should be noted:

- It's hard to put a price on individual sports products using traditional pricing because the pricing of sports products is often based on an estimate of consumer demands;
- The price of a sports product is always very small compared to the total price paid by a consumer of sports products. Much of the money goes to the costs of transport, leisure and other costs that are paid to non-partner organizations.
- Indirect revenue (large profits that are achieved through TV rights contracts, advertising, promotion, selling souvenirs, etc.) are often greater than the direct revenue;
- Many sports programs do not operate on a profit basis, but rely on significant revenue from the state budget. At almost all levels of sports there is external financial support (e.g. parks or recreation facilities that often fund youth sports using tax revenues). (*Mullin*, 1993, pg. 19-20).

Each organization or company is very sensitive to the changes in the price level of their products/services because they directly and often over a short period of time impact the profit. Unlike other marketing instruments (product, distribution, promotion), prices are always expressed quantitatively and the direct relationship between price and profit is easily noticeable. For example, any changes in prices significantly affect not only income, but also the scope and cost of provision of services or production. How many items will sell on the sports market and in what time depends on the price that a sports organization forms for its products/services. The income level will

depend on the sale of products/services at certain prices. And finally, the amount of operating costs will be determined by the amount or number of realized products/services. (Milisavljević, 2004, pg. 396).

Taking into account the above, we can say that the following factors affect pricing in the sports industry:

1) *Status and level of a sports organization* - there are significant differences between profit and non-profit organizations in the approach to pricing. Non-profit organizations that receive various economic benefits through direct budgetary funding from the founders, the state or any other community organization or, on the other hand, through tax incentives, can form such prices that cover only the basic expenses. Profit sports organizations, which do not have the benefits of the non-profit ones, are forced to calculate the full amount of expenditures as well as their profits in their prices. From a marketing point of view, profit sports organizations are forced to be open to all market segments with the quality of services and their products that can respond to the demand of the rising prices.

2) *The popularity and appeal of a sport* - Not all sports disciplines are equally attractive to sports audiences, and thus to marketing. Certainly, those sports that are the most attractive (football, basketball, tennis) and which can attract a large number of spectators and the media are especially significant in the pricing marketing strategy for following such sporting events.

3) *The nature and size of the sports market* - Each product and service finds its share of the market in a wide sports auditorium, which is the basis for the formation of the sports market. Most often, there are unique prices for the entire market, although this is not always the rule. Even in areas where there is an established price, a sports organization stimulates demand in certain segments of the sports market using the discount system. Ticket sales are a classic example of an established, unique price, the one which in various forms and discounts is placed on various segments of the sports market.

4) *The complexity and variety of services* - In sports, in addition to just sports products, an important part of marketing is also the provision of certain sports services, whether services as a primary part of the offer or a service that is used to amplify the experience of the event. There are many services in sports from the external environment of the sports industry (manufacturers of sports equipment, accessories, clothing and footwear, advertising agencies, mass media, sponsors, advertisers). The pricing methodology for services and for products certainly cannot be the same.

5) *The price of the competition* - Competition that is created on the sports fields most often affects the sellers of sports products/services, which at the same time create competition on the sports market, for example, between the sporting goods manufacturers Nike and Reebok that dictate their terms to the competition in pricing.

6) *Environmental factors* - General economic situation, legislation, government measures and regulations, local and global public relations, financial solvency of consumers. All of these factors together affect the pricing and marketing managers cannot control them directly.

### **Pricing methods in sports**

Starting from the marketing approach to sports, it is important to point out first that sports are not equally available to all nor are they equally necessary for all inhabitants of our planet. The essential differences in the understanding of sports derive from a different level of development of society in economic and cultural terms. Obviously, the development of the entire sports industry depends on these factors, its offer to national markets and eventually the price.

If we start from the fact that sports are experienced differently in different countries, and this mostly depends on the socio-economic variables (GDP per capita, unemployment, population density, percentage of urban population, education, religion, attitudes, behavior patterns, the existence of many subcultures), then it is certain that their influence is significant in understanding the role of sports in the life of every member of society. Therefore, pricing approaches and methods are not the same for each society or national

market, and this is something that every marketing expert must take into account.

Focusing on sports products and services, the main factors affecting the way pricing and selection of methods that provide flexible "competition" for consumers in the sphere of sports industry are: the need for sport, sufficient amount of free time, purchasing power of the population, invested marketing efforts, availability of knowledge and capital.

However, considering the quality of a sports product/service, as well as the needs of the population and their purchasing power, we can conclude that meeting certain emotional and personal needs of consumers (health, competitive spirit, fan passion, personal identification, fashion trends) can play an important role in determining the price of sports products and services.

There is no doubt that the price is a means of value (expressed in money), but when determining prices in addition to the actual costs, it is necessary to estimate the subjective values of consumers. This approach is particularly noticeable in competitive sports in pricing tickets for a sporting event. Decision on the ticket prices will depend on: the assessment of actual costs, estimates of purchasing power of the population, valuation and significance of the event, assessment of the reputation of the participants in the event, an estimate of the level of service and choices (an alternative event or the place of the position for watching the game). (Novak, 2006, pg. 281).

In the sports industry, different pricing methods are used. The very decision on pricing is based on several traditional approaches:

- 1) the cost-based approach (the cost-plus method, breakpoint analysis and pricing on the basis of a target profit);
- 2) the consumer-based approach (pricing according to the perceived value);
- 3) the competition-based approach (pricing based on current prices and sealed bids); (Kotler, 2007, p. 680).

*Pricing methods based on costs* - will depend on the product. The company designs a product that is considered good, adds up the cost of making the product and determines the price that covers the cost together with the target profit. Then the buyers have to use marketing to make sure the value of the product justifies its purchase price. If the price is too high, the company must come to terms with lower margins or with reduced sales, which in both cases results in poor profits. (Kotler, 2007, pg. 683).

The easiest method of pricing is the *cost-plus method*. This method is often used in the sports industry and is based on the concept of the total cost. The following simple formula is used: costs plus the desired profit equals price. In order for this system to be effective, precise information on fixed and variable costs is necessary. (Mullin, 1993, pg. 166). Fixed costs can be, for example, renting the stadium, taxes, furnishing the spatial capacity, while variable costs are wages, material costs, food costs, etc.

The essence of the method is to add a standard profit margin to the calculated costs. However, pricing through the margin works only if the price achieves the expected sales level. The question is what will happen if the costs of the company are too high compared to the costs of the competitors? In any case, pricing that ignores the demand and prices of competitors will not lead to the optimal price. (Kotler, 2007, pg. 681).

*The breakpoint analysis and pricing based on the target profit* is also a cost-oriented approach. It's a useful technique where marketing managers need to establish the interaction of the production volume, costs and profit in order to make rational decisions about the price of products/services. In other words, it is a pricing principle to achieve the target profit. The analysis implies determining the so-called "breakpoint". The breakpoint diagram shows the total expected costs and total revenue according to the different levels of sales volume. At that level, the cover of total fixed and previously incurred variable costs is provided. The importance of the breakpoint analysis for a sports marketing professional lies in the implications that it has for determining, for example, off-season prices in facilities such as sports fields, fitness centers, swimming

pools and the like. During the off-season or outside the busiest hours when the fields are out of use at full price, the manager can charge any sum that is greater than the variable costs. In this way, the periods of low prices allow the manager to "absorb" the fixed costs through receipt of additional revenue that otherwise would not have existed. Such a strategy cannot be maintained in the long run and through all periods, but every contribution to the reduction of fixed costs is welcome as long as visitors do not start to shift from more expensive to cheaper periods. (Mullin, 1993, pg. 162).

*Pricing methods of based on the perceived value* - the company determines its target price on the basis of perception of customers about the value of the product. Unlike the pricing methods on the basis of costs, this method starts from the analysis of consumer needs and perceptions of value, where the price is set to match the perceived value of consumers. In other words, the target value and price drive decisions about product design and costs that may be borne.

Companies that set prices based on perceived value must bear in mind that only the consumer decides whether the price of a product/service is acceptable. Decisions on prices are necessarily directed towards the customer as by buying a product they exchange something of value (price) in order to get another value (benefit of possession or use of the product). It is easy to calculate the cost that we have in the production of sports equipment, but attributing the value to a sporting event is not simple. Treats such as atmosphere, relaxation, passion, conversation, status that is supplied by a sporting event and the value we expect and want to measure will vary for different consumers in different situations. For example, a noisy group of fans can be exciting and stimulating to a visitor, but for someone else it may be a daunting experience.

Therefore, the company will not have it easy when it comes to measuring the value that consumers attribute to its product or service because consumers really hold onto these values in the evaluation of the price of products/services. If consumers perceive a price as greater than the value of the product or the sum of impressions with a service, they will not buy the product and they will not use the service. On the

other hand, if consumers perceive a price as lower than the value of the product or service, they will buy it or use it, but then the seller loses the ability to profit. Therefore, marketing experts must understand the reasons why consumers buy a product/service and set the price in line with consumer perceptions of the value of the product or service.

*Pricing methods on the basis of competition* - When making decisions about prices of their products/services, many companies attempt to assess the likely possible reactions of other companies, and on that basis determine a rational strategy for the price of their products or services. A market economy takes into account not only the existing, but also potential competition and each company must determine the relationship of its prices to the prices of competitors by setting up prices that are below, above or at the level of the competition's price. The information that is required is whether competitors make profits at those prices. In practice, two forms of pricing on the basis of competition occur most often: on the basis of current prices and on the basis of sealed bids.

*Pricing methods on the basis of current prices* - it is based on the prices of competitors where the rule of thumb is that the market leader dictates the price on the basis of its assessment, and the others have to adjust. (Kotler, 2007, pg. 685). Adjustments mainly involve the same, higher or lower price compared to its main competitors. (Novak, 2006, pg. 282). However, competition-oriented pricing can be very risky if the company has higher costs compared to the competition. (Džober, 2006, pg. 205).

*The sealed bids pricing method* - when a company sets its price in this way, the price is based on the how the company thinks its competitors will set the price, instead of being guided by its own costs or relying on demand. Potential buyers submit sealed bids and the case is assigned to the buyer who offers the best price. (Kotler, 2007, pg. 686).

## **Conclusion**

While non-price factors play an increasing role in the modern marketing process, we cannot say that price is not an essential element of the marketing mix. Despite many internal and external factors affecting the company's decision on prices, price is still the only element that generates income; other elements of the marketing mix generate costs.

Each product or service has a price, which must be determined not only by profit-oriented organizations, but also by many non-profit organizations, such as sports organizations. Pricing strategy and method are determined by the target market and positioning objectives of a sports organization. That means that the aim of marketing in sports is not only to achieve the highest possible price for a product or service, but it is also to form a price which, combined with other instruments of the marketing mix, can contribute to the achievement of short-term and long-term business goals. Essentially, the product price is what a sports organization gets in return for all the effort that it has invested in the design and promotion of products or services and their placement on the market.

As sports consumers relate prices to the perceived usable value of products or services, it is important that the price does not surpass the sum of these values, otherwise consumers will not buy the product. Therefore, the task of marketing managers in determining the pricing method is not easy and they are often forced to change their strategies and pricing policies for different pricing segments. It is important to choose an optimal pricing policy to ensure that a sports organization is successful, thereby generating optimal profit.

In order to achieve a relatively permanent profit, the price must become an integral part of the strategy of not only marketing, but of the sports organization as well. Pricing and price management are crucial activities that have a profound effect on the profitability and survival of a sports organization. We should also not ignore the business environment that is changing dramatically, so the price policy will be subject to constant changes as well.

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