Dynamic Sponsorship Pricing: A Conceptual Framework

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Variable pricing is defined as a demand-based pricing strategy in which the price of a good or service may differ based on a variety of factors such as sales location, date, etc. Variable pricing strategies help to maximize profit by achieving a balance between volume and revenue per unit (Business Dictionary, 2012). In regard to sport pricing, variable pricing has typically been applied to ticket sales and involves charging different prices for a specific seat based on the potential matchup or day/time of the game that is set prior to the start of the season. Variable Ticket Pricing (VTP) has been common in the secondary ticket sales market for many years, but is a relatively new practice for professional sports teams and one of the first teams to institute VTP were the Colorado Rockies in 1999. While VTP typically increases team revenues, it also requires teams to set prices so early there are often price inefficiencies (Drayer, Shapiro, & Lee, 2012; King, 2012; Rascher, McEvoy, Nagel, & Brown, 2007).

Several sports teams have noticed the potential pricing inefficiencies associated with VTP strategies. In 2009, the San Francisco Giants were the first professional sports team to initiate a Dynamic Ticket Pricing (DTP) model that utilizes several factors such as team performance, weather, and individual player performance to increase or decrease prices daily. DTP is a very new phenomenon in the sports world, but the airline and hotel industries have been successfully utilizing this practice for several decades (Drayer, Shapiro, & Lee, 2012). Initially, sports teams were reluctant to experiment with DTP, but the recent success of this strategy by the San Francisco Giants and other teams has led to widespread expansion of DTP across several areas of sports. A recent study of Major League Baseball (MLB) teams that fully implemented DTP demonstrated that they were able to increase revenues by an average of $900,000 per season, after the additional expenses associated with a DTP system (King, 2012).

DTP has been so successful that it has expanded into the National Hockey League (NHL), the National Basketball Association (NBA), and even college sports with the University of South Florida being the first college program to test this method of real time pricing (King, 2012; Rishe, 2012). Despite the success of dynamic pricing and DTP specifically in the sports setting, very little empirical research exists regarding these practices. Drayer, Shapiro, and Lee (2012) found that applying dynamic pricing to sport ticket pricing is appropriate according to the revenue management literature and there may be further applications of dynamic pricing in the sport setting.

Similar to sports tickets, the value of a sport sponsorship can fluctuate widely based on a variety of factors such as team performance, individual player performance, event attendance, media exposure, etc. (Cornwell, Pruitt, & Van Ness, 2001; Meenaghan, 2001; Pruitt, Cornwell, & Clark, 2004). However, sponsorship prices are usually set prior to the start of a sports season and not changed until the following year or end of the sponsorship agreement (Mickle, 2012). This creates a potential pricing inefficiency for both the team and the sponsor since the team or a player may perform at a higher than expected level and receive increased exposure or inversely, if the team/player underperforms, exposure may be lower than expected (Drayer, Shapiro, & Lee, 2012).

For instance, sponsors of the New York Knicks received a significant and unexpected increase in exposure and potential value due to the Jeremy Lin phenomenon last season. This included increased television viewers, attendance, and the opportunity to reach a new market segment. Despite this increased exposure, the Knick's sponsors did not have to pay more for their sponsorships during the season. In addition, when the Knicks did not match the Houston Rocket's offer and Lin left as a free agent, Houston gained two major sponsorship deals from Maxxis International and Acer. In other words, sponsorship revenue for the team is often realized after a player's or team's success, not concurrently (Eichelberger & Soshnick, 2012; Lefton, 2012; Lombardo, 2012; Ourand & Lombardo, 2012).

The purpose of this study is to provide an overview of how revenue management and more specifically dynamic pricing can be applied to sport sponsorship. Secondly, this study provides a discussion of Dynamic Sponsorship

Pricing's (DSP) applications for future empirical research, while noting the potential limitations and methodological considerations. Additionally, while researchers have recently started investigating dynamic pricing in the traditional advertising realm, this study represents the first examination of dynamic pricing in the sport sponsorship setting (MacDonald & Rasmussen, 2010).

During the presentation the researchers will address DSP from both the perspective of the sponsor and the team because similar to DTP there may be some initial reluctance for teams to adapt to this practice. The researchers will discuss the following aspects of DSP in detail:
• The theoretical basis of revenue management and dynamic pricing in both business and sport settings
• The factors influencing sponsorship pricing
• The differences associated with dynamic pricing in traditional advertising vs. sport sponsorship and the implications of these differences
• Applications and limitations of DSP