

10

Theme Parks Revenue Management

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Learning outcomes

After reading this chapter, you should be able to:

- Describe the global theme park industry.
- Identify sources of income in the theme park industry.
- Provide an overview of contemporary revenue strategies in the theme park industry.
- Provide a look ahead – how can creative revenue management techniques be utilised to increase revenues in the theme park industry?
- Understand and apply: pay-as-you-go admission pricing strategies; pay-one-price admission pricing strategies; consumer segmentation-based admission pricing strategies; theme park physical design as a revenue strategy; extending the length of stay at theme parks as a revenue strategy; convenience and the bundling of services at theme parks as a revenue strategy.

■ Introduction

Revenue management is a collection of techniques that focus on maximising revenues, and has been credited for income improvement in several segments of the hospitality industry (Cross, 1997). In many service industries, capacity of supply is often fixed while demand is volatile. Therefore, it is challenging for service companies to achieve a balance between supply and demand (Peng, Xiao & Li, 2012). Theme parks are characterised by high capital investment, high operational fixed costs and, to some extent, high operational variable cost. Additionally, demand for the theme park product varies according to time of the year, day of the week and time of the day. Thus, the industry has the potential of benefiting from the adoption of creative revenue management strategies.

To achieve success with revenue management techniques, firms must be willing to constantly reconsider their product offering, their pricing structures, and their general business processes (Cross, 1997). In the U.S. hospitality and tourism industry, revenue management began in the airline industry following the 1978 deregulation, and then spread to lodging and other industry sectors. However, to date, many theme parks have not fully utilised the benefits of revenue management (Berman, 2005), even though there are opportunities to apply this strategy in the industry (Heo & Lee, 2009).

■ The global theme park industry

Theme parks are a relatively new concept of tourist attraction and often attempt to create a fantasy atmosphere of another place and time. Theming is reflected through architecture, landscaping, costumed personnel, rides, shows, food services, merchandising and other environmental attributes that impact the guest's experience (Milman, 2010). Disneyland's opening in 1955 in Anaheim, California is often referred to by both scholars and industry experts as the genesis of the theme park industry (Price, 1999). Walt Disney wanted his park to stress cleanliness, to have a single point of entry, and to contain numerous themed sections around which all attractions, entertainment and retail activities were coordinated. Much emphasis was placed on isolating the outside world from the fantasy world presented in the parks and to provide an environment where families could be entertained together (Price, 1999).

Other theme park attributes referred to in the literature include: the pay-one-price admission fee, annual attendance revenue in excess of US\$ one million, corporate ownership, specific design traits such as elaborate landscaping, architecture that entertains, as well as a mix of activities that includes large-scale rides, retail opportunities and live entertainment (Kyriazi, 1976; Lyon, 1987; Carlson & Popelka, 1988; Adams, 1991; Gottdiener, 1997; Williams, 1998). While the contemporary theme park industry was originally introduced in North America, in recent decades, the theme park industry has expanded globally. In 2011, over 196 million people visited the top 25 worldwide parks, a 3.8 percent increase over the 2010 figure (TEA/ AECOM, 2012). While the economic, social and political impact of these entertainment complexes is sometimes overlooked, it is interesting to note that in 2011 the number of visitors to the world's top 25 theme parks was slightly higher than the number of international tourists that visited Spain, China, Italy, and the United Kingdom combined (World Tourism Organisation, 2012).

■ Sources of income in the theme park industry

Revenues for the theme park industry are generated from a variety of sources, but primarily from the admission price. Admission price represents between 49 to 60 percent of overall theme park revenues (Vogel, 2010; Mintel, 2011). The number of guest admissions also represents the volume from which other sources of revenue are derived like food and beverage, merchandise and games.

Guest spending on food and beverage accounts for approximately 14 to 17 percent of theme park revenues; merchandise sales (souvenirs, sundries, etc.) accounts for 6 to 10 percent of revenues (Vogel, 2010; Mintel, 2011) and guest spending on games accounts for another 4 percent of the total revenues (Vogel, 2010). Parking fees, concession charges, and sponsorship funds from external advertisers make up the remainder of the revenue sources for a typical theme park (First Research, 2012) (Figure 10.1).

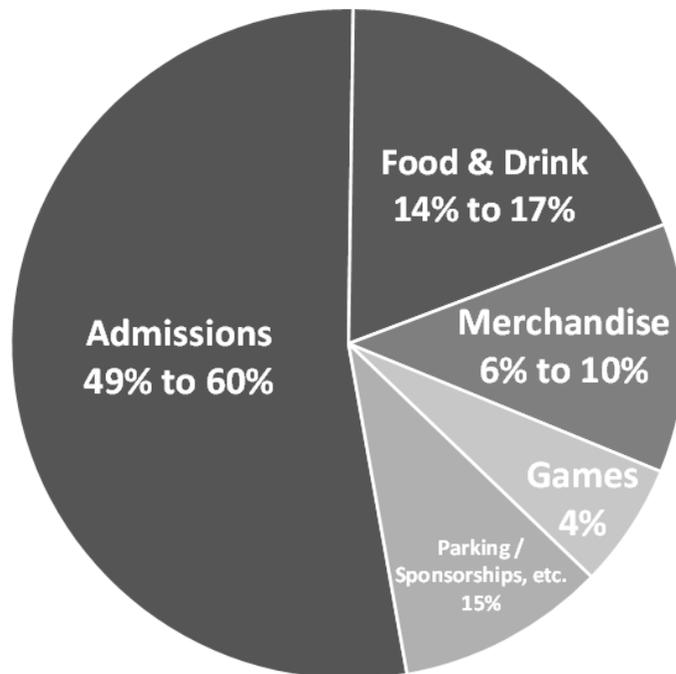


Figure 10.1: Approximate sources of theme park revenues

Source: Vogel, 2010; Mintel, 2011, & First Research, 2012

Since the bulk of theme park revenue is derived from admission receipts, theme parks have devised a variety of admission pricing options in order to generate as much revenue as possible from a variety of market segments.