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part five

THE ATTRACTIONS BUSINESS

Driving revenues

In part five of our series, David Camp looks at a range of revenue streams and the various pitfalls they can sometimes present

David Camp

SERIES ROADMAP

This eight-part series outlines the patterns and dynamics that define every attraction – from visitor behaviour and guest spending to operating costs and profitability

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The evaluation of potential revenues at attractions is critical, yet this is often over-estimated by people planning new attractions as there is little published information. In this article we discuss attraction revenue streams.

The most important revenue source for visitor attractions is admissions. Ticket revenues typically account for more than half the income from visitors and the measure of this income is as an admission per capita, also known as per cap.

Admission per caps are influenced by ticket prices, discounts, season pass sales and visitor mix. They are compared to the full adult admission price in a measure known as admission yield. Strong performing attractions that offer limited discounts can achieve admission yields of 80 per cent or more. Visitor attractions that operate in competitive markets with deep discounts can struggle to achieve yields of 50 per cent.

Per caps and yield measurement exclude the impact of VAT, which must also be allowed for. While a few countries do not charge VAT and US attractions typically add sales tax to tickets, most operators need to absorb the 20 per cent or so VAT rates that are common around the world.

Thus, an attraction that has a full adult admission ticket of £20 including VAT and achieves a 60 per cent yield would only achieve an admission per cap of £10 once VAT and discounts are factored in. Changes in VAT rates – as experienced in Spain in 2012 when VAT increased from a reduced rate of 8 per cent to the full rate of 21 per cent – are hard to pass on to customers. Spanish operators had to absorb this increase which directly impacted profits.

Ollivanders Wand Shop is a clever merchandise offering at Universal

Setting the right price

The importance of admission revenue means that setting ticket prices appropriately is critical. While visitors commonly complain about prices, they do have a feel for an appropriate value per hour of entertainment. Typically, adult admission to attractions in the UK are equivalent to between £5 and £7.50 per hour although there are exceptions for unique or short stay attractions. For example, the Shard and London Eye charge the equivalent of more than £30 per hour while a visit to the Harry Potter Studio Tour costs £13 per hour.

Once prices are established, it is difficult to make significant increases without a major investment in the attraction product. This price pressure has led to a surge in the number of upcharge activities such as VIP or fast passes, behind the scenes tours and animal encounters offered in recent years. These can be expensive, and while the appeal lies in a limited number being available, they can serve to increase admissions income by up to 10 per cent.

Upcharge activities such as fast passes can boost admissions income by 10 per cent

> "Once prices are established, it is difficult to make significant increases without a major investment in the attraction product"

Secondary spends

Food and beverage is an important secondary income stream. F&B spending is related to the visitor length of stay and the availability of alternative offers. Attractions where guests spend up to two hours typically generate spending on a drink and/or snack on-site, unless the attraction is located in an urban area with a range of alternative branded F&B offers. At larger attractions, with a dwell time of four hours or more, guests often have a meal on site.

Merchandise is also an important source of income. While retail outlets need to provide a variety of offers from small pocket money items to more expensive gifts, the range should be of a manageable size to avoid excess stock.

Most attractions look to create a visitor flow that exits guests through a retail outlet. This is a sound business decision. Back in 1997, we worked with the Royal Armouries Museum in Leeds, UK. Initially, the guests exited past the shop but not directly through it. We suggested altering the flow so that all guests exited through the shop and retail turnover increased by 25 per cent as a result.

Other visitor-related income can include parking fees, games, photos and videos.

Different types of attractions have a different revenue split. For example, fun attractions make more from F&B

Revenue mix

In terms of the mix of revenues across different types of attractions, the pie charts (below) show the typical split for theme parks, wildlife attractions and gated cultural attractions. As shown, the greater length of stay at theme parks leads to stronger F&B spending than at other attractions while cultural attractions are able to generate a greater proportion from merchandise.

In general, a strong performing attraction can look to achieve a total per capita revenue equivalent to the full adult admission price. So using the earlier example where the £20 adult admission ticket yielded an average admission per cap of £10, adding on F&B, merchandise and other visitor revenue could lead to a total per cap of around £20.

As with admissions, VAT is applicable across most of these secondary income streams and importantly there is the cost of goods to take into account. These costs have similar ratios across attractions and are generally 20-40 per cent for F&B and 30-50 per cent for merchandise.

The ever-increasing use of credit and debit cards also has an impact on revenues as attractions have to pay credit card fees

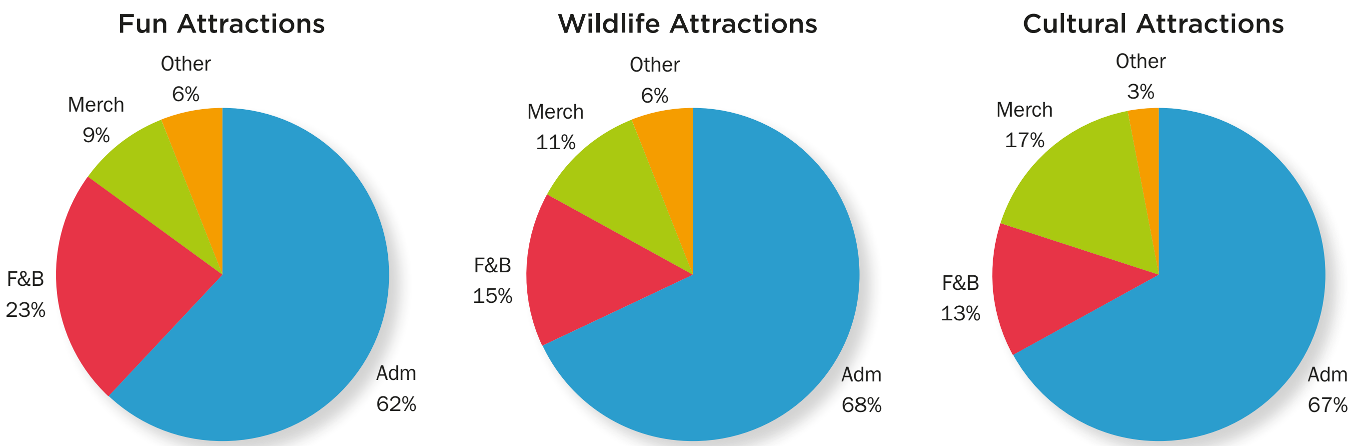

PHOTO: WILDLIFE RESERVES SINGAPORE

Singapore's River Safari capitalises on its popular Giant Panda Forest exhibit with the House of Kai Kai and Jia Jia shop and Mama Panda Kitchen

to the card issuers. While these have been capped in recent years, they can still have an impact on the business, particularly those with strong online ticket sales.

The goods sold generally equate to 10 to 20 per cent of total visitor revenues, depending on the guest spending mix.

Other forms of income

There are several other non-visitor income streams. The most common is grants. Many museums that offer free entry rely almost entirely on grant aid from national, regional or local governments, as do most national and regional parks. A number of gated cultural and natural attractions also benefit from substantial grant income.

Donations, friends and memberships can also be important sources of income, particularly to cultural and wildlife attractions. For groups such as English Heritage in the UK, Fondo Ambiente Italiano in Italy, and National Trusts in Australia, Canada and the UK, memberships provide a vital source of income to support the maintenance and restoration of the large numbers of properties entrusted to them.

Attracting significant income from sponsorship is challenging. While landmark attractions such as the Coca Cola London Eye and British Airways i360 in Brighton, UK, have been able to attract naming rights sponsorship, and KidZania generates strong sponsorship income from its activity partners, these are exceptions. Most sponsorship income achieved by attractions is of a modest value or via in-kind sponsorship from beverage, technology or other suppliers.

Membership is a vital income source for Italy's Fondo Ambiente

Events and accommodation

Hosting events and activities is another source of income. These can include conferences, exhibitions, concerts, parties, corporate events and sleepovers.

While most attractions look to operate their own F&B and merchandise outlets, some rent out these activities to third-party operators, receiving an annual rental stream. Although this generally leads to a lesser income than would be achieved by the attraction running the facilities directly, as the catering/retail company needs to make a profit from the business, it does make life simpler for the operator.

A number of large theme parks and other attractions have developed on-site hotels and other accommodation to create resorts and extend the length of stay of their guests. While these are typically operated as separate business units, they obviously have a significant impact on the total resort incomes.

Typically, commercial attractions generate in excess of 80 per cent of their income directly from visitors. At wildlife and cultural attractions non-visitor income often represents more than 50 per cent of total revenues. As we have shown, assessing revenues at attractions is a complex area with lots of income streams to consider. It is therefore critical to obtain experienced advice and input when undertaking business planning in this area. ●

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