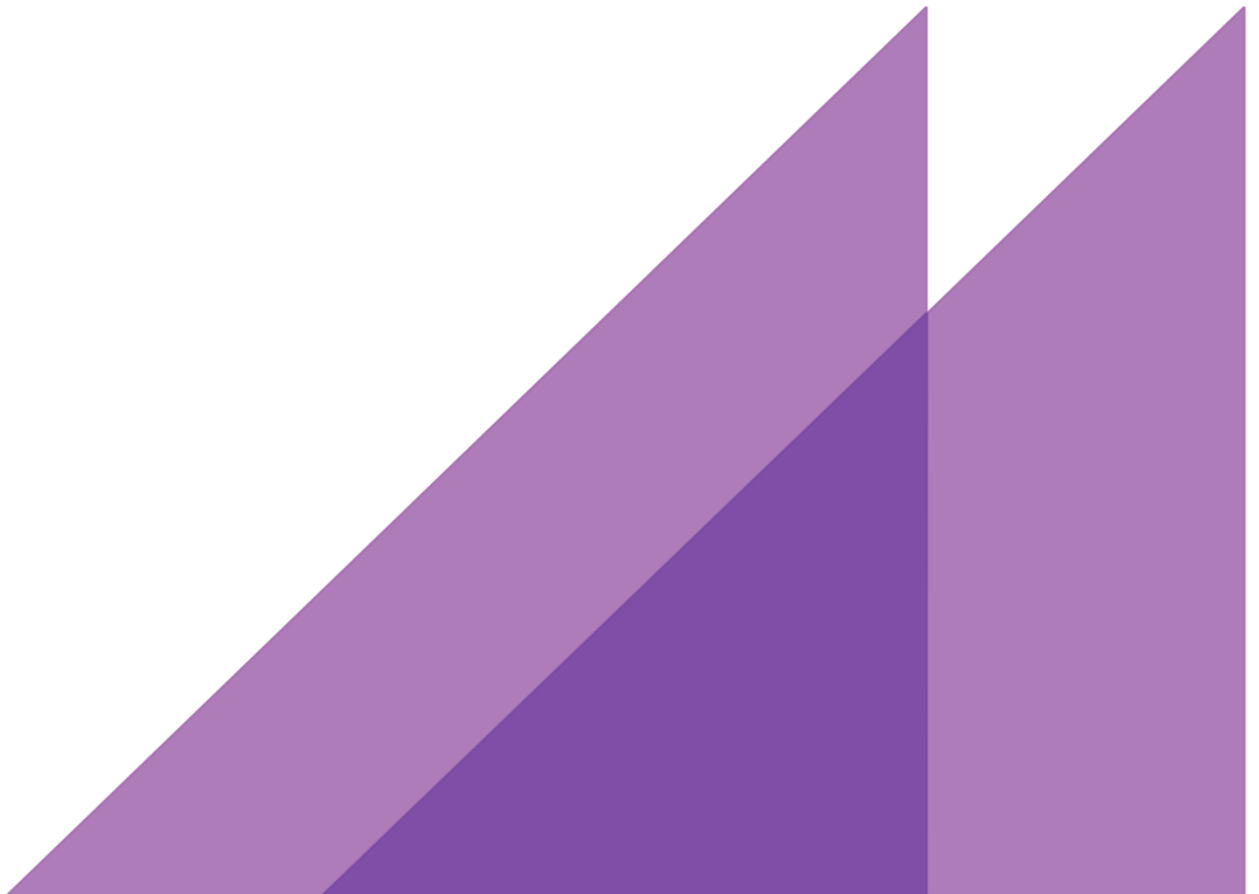


SUBMISSION TO
SENATE INQUIRY INTO TICKET SCALPING

18 FEBRUARY 2014

THE SECONDARY TICKET SALES MARKET





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1 Introduction

1. This Submission, commissioned by eBay, presents an analysis of the primary and secondary ticket markets.
2. Secondary ticket sales are tickets which are resold after having been bought initially from music (or other arts) or sporting promoters, or from agencies like Ticketmaster and Ticketek.
3. There are many benefits from secondary ticket sales. Buyers of secondary tickets benefit by being able to access tickets that they missed out on earlier, possibly at lower prices than their face value. Unlike with the primary ticket market, which is dominated by two large sellers, buyers can shop around from a large number of sellers.
4. The willingness to engage in mutually beneficial exchange is a trait that distinguishes human beings from other animals. This was remarked upon by the founder of modern economics, Adam Smith, in *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776, Book 1, Chapter 2):

"Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog".
5. Sellers of secondary tickets benefit because they have the opportunity to obtain some value for tickets that they cannot use or no longer wish to use. The large primary ticket sellers Ticketek and Ticketmaster do not appear to give refunds for unwanted tickets, except in limited circumstances, and even then do they do not refund ticket processing fees, which can be significant. Holders of unwanted tickets are better off having a secondary market where they can sell to rather than having to rely on primary ticket sellers refunding them (some of) their money.¹
6. It should be emphasised that the value of the secondary market sales (around \$100 million per annum²) is only about five per cent of the value of the primary market, so, as far as issues of consumer protection and competition are concerned, the primary market is much more important.

¹ See <http://www.smh.com.au/entertainment/sydney-festival/ticket-price-gouging-taking-consumers-for-a-ride-20140117-3102w.html> on the cost of booking fees e.g. an additional fee of \$6.50 for a \$55 ticket to see *Dido & Aeneas*.

² Author's estimates

2 The ticket markets

2.1 The primary market

7. The primary ticket market in Australia is dominated by Ticketek, with a market share of 72 per cent and Ticketmaster, with a market share of 26 per cent. The third player, Bass, has a very small share (2 per cent).
8. Thus, the primary ticket market appears to be a duopoly, with only two sellers (to speak of), though as discussed below. In practice it is even less competitive than that.
9. Because they are the only two sellers of tickets, Ticketek and Ticketmaster have the ability to charge higher prices than if there were many sellers of tickets i.e. if the market was competitive. These primary ticketing companies like to give the impression that ticket prices have nothing to do with them e.g. Ticketmaster says on its website³ that

“Ticketmaster does not set the ticket prices”.

10. However, this carefully worded statement does not exclude the possibility that Ticketmaster (and similarly Ticketek) have some say in the ticket prices in conjunction with the event promoters and artists.
11. Furthermore, even if the primary ticketing companies have no say whatsoever in ticket prices and are merely the conduit for tickets whose prices are set by promoters and performers, these promoters and performers, knowing that the market for tickets is a duopoly, know that they can set their prices high, because there is no other way for buyers to get tickets in the first instance, and none at all if there is no secondary market.
12. In fact, for most events, there is a monopoly for tickets, not a duopoly, because tickets for most events will be available either through Ticketek or Ticketmaster, but not both.⁴
13. Thus, for example, people wanting to see *Les Misérables* can only buy tickets through Ticketek. People wanting to see the Formula 1 Grand Prix can only buy tickets through Ticketmaster, and so on.
14. The extent to which this market power can be exercised depends on the attractiveness of the event. Events for which demand is not inherently large will not lend themselves to the exercise of market power. On the other hand, the ability to exercise market power with popular tickets would appear to be considerable, as they have few close substitutes (diehard fans would say none).

³ <http://www.ticketmaster.com.au/h/purchase.html>

⁴ An exception is AFL tickets, which are sold through both Ticketek and Ticketmaster.

15. The primary ticketing companies also can exercise their market power through the pricing of ancillary fees (booking fees, postage fees, credit card fees etc) and by setting onerous terms and conditions.
16. It is not always the case that duopolies signify an uncompetitive market. In some circumstances, namely when duopolies compete on price and sell homogeneous products (i.e. there is no quality difference, real or perceived, between them), the prices they sell for will resemble those found in a competitive market, as the duopolists undercut each other's prices. (This kind of competition between duopolists, or oligopolists generally, is known as a Bertrand oligopoly).
17. However, taking Ticketek and Ticketmaster at their word that event prices are not in their control, it must follow that they compete on non-price characteristics of the services they offer e.g. ease of use of their web site ticketing, information about forthcoming events etc. Competition between duopolists, or oligopolists, based on non-price characteristics is known as a Cournot oligopoly.
18. As is very well known in economic analysis, prices paid by consumers facing a Cournot oligopoly will be higher than those facing a Cournot oligopoly.
19. Thus, to the extent that Ticketek and Ticketmaster compete with each other at all, because they are selling tickets to the same event, or to different events where consumers will choose one or the other, the fact that (according to Ticketek and Ticketmaster) they don't set ticket prices makes it more, not less, likely that ticket buyers will pay higher prices than if the market for primary tickets was competitive.
20. The secondary ticket market goes some way to relieving this situation.

2.2 The secondary market

21. Table 1 shows estimated market shares in order of size for secondary ticket selling platforms.

Table 1 **Secondary ticket market shares in order of size**

Platform
Showbiz
Facebook
eBay
Localbroker
My tickets
Gumtree
Viagogo
Seatwave

Source: Author's calculations

22. As can be seen, the secondary market for tickets is much more fragmented than the primary market, with Showbiz having the estimated largest share.
23. In fact, the market shares in Table 1 understate competition in the secondary market because some platforms do not sell tickets as such; they provide a platform for large numbers of sellers
24. Buyers of secondary tickets don't just benefit from the existence of secondary ticket sellers, they benefit from the way that tickets are sold on secondary market platforms. These platforms facilitate price discovery because prices change as the date of the event approaches. If the event is popular and there are relatively few tickets on the secondary market, prices will tend to drift up, and *vice versa*.
25. Thus buyers, by observing how prices change over time, can form an estimate of the market value of tickets. They can then compare this valuation to their own personal valuation, and decide whether or not they want to buy. This is also important because for some events, the popularity of an event, evidenced by how prices are moving, is indicative of the quality of the event.
26. This price discovery mechanism is not available on Ticketek or Ticketmaster, because prices are set on a take-it-or-leave-it basis. Buyers or potential buyers of tickets from the primary ticket sellers have no idea about the popularity of the event, except if it sells out quickly, by which time it is too late for them – unless they have the opportunity to buy tickets on the secondary market.
27. Thus secondary markets convey information for buyers and potential buyers. A well-informed market is much more likely to be an efficient market, in the sense that tickets go to buyers who value them the most.
28. The secondary ticket market in Australia should be encouraged. It is of benefit to ticket buyers in the primary market and ticket buyers in the secondary market. The only losers from secondary ticket selling are the primary ticket duopolists. Ticketek and Ticketmaster who want to keep control over ticket sales.