



Paperless Tickets, Costly to Consumers

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This ConsumerGram finds paperless tickets are not consumer friendly. These tickets inconvenience consumers by restricting use, gifting and resale, and create other problems for consumers. Instead of benefiting consumers, the trend favoring paperless tickets appears to be motivated by a desire of the dominant primary ticket provider to block out competition in the secondary ticket (resale) market. Economic studies find that paperless tickets increase consumer prices and reduce resale volumes – both consistent indicators of market power. This ConsumerGram finds that if paperless ticketing is fully implemented, it will cost consumers \$2 billion in welfare losses per year by locking out a competitive secondary market.

Background

When Ticketmaster, the dominant provider in the primary ticket market, first announced that it would begin using paperless ticketing for many concerts and other entertainment venues, the common explanation was that it would benefit fans by curbing counterfeit tickets and scalping. At first glance, the idea seemed innovative for a trial. However, in the years since its introduction, some distributing facts have emerged which suggest that paperless tickets may have adverse effects on consumers and the market. These facts call into question the justification for paperless tickets and suggest that its implementation has little to do with helping consumers and more to do with helping the dominant primary ticket company control and funnel resale transactions to its own resale subsidiary, thereby undermining the competitive secondary market.

Paperless ticketing, like other types of ticketing, provides access to events. However, unlike regular ticket stubs, scanned files for a smartphone, or PDF copies with a barcode, consumers with paperless tickets are first required to present their picture identification and credit card before entering the venue.

While this process ensures that only the original paying customer can enter the venue, it creates a number of problems that are not consumer friendly. For example, the customer will need to bring the same credit card that was used to pay for the ticket. That is a problem for consumers who have lost their credit cards or have not kept expired ones. It also presents problems for consumers looking to give, sell or gift the ticket to a friend or relative, particularly

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at the last minute, because the original buyer may need to come to the event to give entry to the party wishing to use the paperless ticket. If the customer buys tickets for himself and friends, the entire group will need to enter the venue at the same time. If time permits, it is possible for the customer to change credit card information online or to change the recipient's information, but only on Ticketmaster's proprietary ticket transfer platform and only with the approval of the venue or performer. Also, by restricting ticket transfers to its own platform, Ticketmaster gains the power to charge consumers additional fees for giving away a ticket they have already purchased. Either way, the process is not as simple as handing over a ticket or emailing a PDF copy of the ticket. With these restrictions and inconveniences in mind, the benefits of paperless tickets to consumers are meagre.

Primary and Secondary Markets

If the benefits of paperless tickets are so small and if it tends to create many problems for consumers, why are they being pushed onto consumers? Said differently, if paperless tickets have little benefit to consumers, then why does Ticketmaster want paperless tickets at all and who really benefits from it? To address these questions, it is helpful to review the structure of the primary and secondary ticketing markets.

Ticketmaster's parent company, Live Nation Entertainment, is a \$6 billion company which promotes nearly 200,000 events in 47 countries. In addition to events, it runs the largest ticket sales operation in the world. Ticketmaster sold 147 million tickets in 2012, with its clients' box offices, many of which are also Live Nation-owned, accounting for an additional 108 million tickets. As far as its direct sales, average ticket prices were approximately \$62 a piece, producing a gross value of tickets exceeding \$9 billion in 2012. In addition to its primary ticket sales, as previously noted, Ticketmaster now owns and operates multiple ticket resale services.

In recent years, the company's share for the primary ticket market has been estimated to approach or exceed 85%, according to a Department of Justice analysis.² According to the DOJ analysis, Ticketmaster accounted for an 83% share concert venue seating capacity in 2008, with the next top-three competitors' market share totaling a mere 9%. Essentially, Ticketmaster operates a near-monopoly, allowing it to charge lucrative convenience fees and facility fees, as well as fees for processing, printing and delivery.

While the primary market is heavily concentrated, the secondary market is competitive. Over many years, consumers have been accustomed to giving away or selling tickets, using word-of-mouth or newspaper advertisements. The trend in a number of states has been to facilitate resale by removing price ceilings, adopting consumer protection laws to address ticket fraud, and ending scalping restrictions.

The more recent advent of the Internet age has provided consumers wider options and a more efficient means to buy and resell their tickets, thereby benefitting both the seller and

² United States of American (et al) versus Ticketmaster Entertainment, Inc. and Live Nation, Inc., Antitrust Complaint, Case 1:10-cv-009139, January 25, 2010.

the buyer, as well as adding legitimacy and safeguards to these transactions. Some online resellers and ticket brokers include EZTicketSearch, RazorGator, StubHub, TicketCity, Ticket Lodge, TicketLiquidator, Ticketmaster's TicketsNow, TM+ and TicketExchange and Vivid Seats, to name a few, guarantee the authenticity of the tickets they sell and some integrate their secondary sales with the primary sellers. For example, StubHub's deal with Major League Baseball allows secure electronic transfers of tickets that eliminate the possibility of counterfeiting or duplicating a ticket.³ There are also a number of deals between primary and secondary sellers that permit these integrated transactions. This secondary market reduces the risk of counterfeiting and facilitates a mutually beneficial trade to both the seller and buyer – much of what paperless tickets were intended to do, but without all of the inconvenience to consumers and without stifling competition in the marketplace.

Who Benefits from Paperless Tickets?

Because paperless tickets put limitations on ticketholders' use of tickets – particularly as it relates to gifting, donating and reselling tickets, as well as complicating entry into events – the benefits of paperless tickets are small, at best, and they come at a cost to consumers by constraining flexibility and freedom. In terms of protecting against counterfeits, the current major secondary market provider give guarantees, so paperless tickets provide no unique benefit for its inconvenience to consumers.

Another major drawback of paperless tickets is that Ticketmaster runs a "shot clock" at the time of purchase that forces consumers to decide quickly to buy or risk losing the option. This creates an urgency that conflicts with the consumer's right to know and understand the rules of paperless tickets before buying them. Because many consumers may elect to "click" to approve the terms and then buy a ticket without having been given the time to read the problems and stipulations that paperless tickets can bring, this leads to a market failure.

The basic assumption for competition in economics is that all of the parties of a transaction have "perfect information." In the case of paperless tickets, consumers face "asymmetric information" in that the seller (Ticketmaster) has better information than buyers (consumers), which puts buyers at a distinct disadvantage in trade and leads to lower consumer welfare.⁴ Market failures, like this one, often justify regulation, since the costs to consumers typically outweigh the benefits.

³ "MLB Renews Deal with StubHub," ESPN, December 10, 2012, at http://espn.go.com/mlb/story/_/id/8732189/major-league-baseball-stubhub-renew-secondary-ticket-market-deal.

⁴ The implications of imperfect information affecting consumer choices have been intensively studied. See, Joan K. Lewis, Teresa Mauldin, "Returns to Investments in Information: Can Investments Reduce Bad Purchase Experiences of Consumers?" *Journal of Consumer Studies and Home Economics*, 20 (2), 183–199, 1996; George B. Sproles, Loren V. Geistfeld, and Suzanne B. Badenhop, "Types and Amounts of Information Used by Efficient Consumers," *Journal of Consumer Affairs*, Vol. 14, Issue 1, p. 37, June 1980; and A. Postlewaite, *Asymmetric Information, Allocation, Information, and Markets*, (John Eatwell, Murray Milgate, Peter Newman, eds.), The New Palgrave, WW Norton, NY and London, 1989, pp. 35-38. Taken together these papers indicate that inadequate consumer information leads to loss of consumer welfare and that information acquisition by consumers is often costly.

If consumers are not benefitting from paperless tickets, why would Ticketmaster implement it? Since Ticketmaster controls over 80% of the primary market, funneling all secondary activity through its own resale affiliates becomes a way to control and monopolize the secondary market.⁵

As a result, Ticketmaster can profit by transaction fees on both the primary and secondary transactions; and it can limit resale and drive up resale prices. Essential by locking out the competition, it can become the dominant reseller, and that is the potential motive for introducing paperless tickets. With paperless tickets, it can capture additional monopoly profits, reduce rivalry and innovation, and lead to an allocative inefficiency that hurts would-be buyers and sellers.⁶ Therefore, paperless tickets are not about protecting consumers.

Consumer Welfare Losses and Conclusion

Free trade between a buyer and a seller is a benefit both economically and socially, particularly with respect to legitimate secondary market and as it relates to ticket scalping.⁷ The secondary market facilitates the efficient reallocation of goods to those wanting and able to pay for it, thereby producing welfare benefits to both the buyer and the reseller. Restricting the secondary market, as paperless tickets does, leads to a significant loss of consumer welfare.⁸ In fact, Rascher and Schwartz estimate that paperless tickets add \$93 dollars to the price of resale and severely restrict resale transactions, compared to traditional resale. This means that consumers will pay higher prices and face limited output – all symptoms of market power.

Using the Rascher and Schwartz papers findings, and using the volumes processed by Ticketmaster in its 2012 annual report, we estimate the consumer welfare losses replacing the secondary market with paperless ticketing and find that consumers will conservatively lose \$2 billion per year.⁹ This result is consistent with previous results that find paperless tickets reduce consumer welfare benefits and harms consumers.

⁵ Alfred Branch Jr., "Ticketmaster Allows Resale of Paperless Tickets Only Through Its Web Site," TicketNews.com, April 1, 2010, <http://www.ticketnews.com/news/Ticketmaster-allows-resale-of-paperless-tickets-only-through-its-Web-site4101019>.

⁶ James D. Hurwitz, "Restrictive Paperless Tickets," American Antitrust Institute, January 20, 2012, at <http://www.antitrustinstitute.org/content/aai-white-paper-restrictive-paperless-tickets>.

⁷ Daniel A. Rascher and Andrew D. Schwarz, "The Antitrust Implications of Paperless Ticketing on Secondary Markets, Journal of Competition, Law & Economics, 2013.

⁸ Phillip Leslie and Alan Sorensen, "The Welfare Effects of Ticket Resale," National Bureau of Economic Research, Working Paper No. 15476, November 2007, at <http://www.nber.org/papers/w15476>.

⁹ This estimate uses the inelastic price elasticity implied in the Rascher and Schwarz results, based on the price effect and resulting demand repression. To check the stability of the results, this estimate also considered the welfare effects assuming unitary elasticity. Because this estimate assumed that only 10% of primary tickets are sold into the secondary market, the actual welfare losses are likely to have underestimated. However, the estimate serves as a first measure of the losses affecting consumers, if paperless tickets become the standard for resale. A description of welfare measurement is available in Steve Pociask and Joseph Fuhr, "The Monopoly of Forest Certification," The American Consumer Institute Center for Citizen Research, October 1, 2012, at <http://198.90.20.172/~aci/dev/wp-content/uploads/2012/10/Certification-Study-FINAL.pdf>.

In summary, this ConsumerGram shows that paperless tickets provide no clear benefit to consumers, but instead significantly reduces consumer welfare. In answering why TicketMaster would choose to implement a ticketing policy that reduces consumer benefits, one explanation is that the policy is an attempt by the company to monopolize the downstream resale market.

Our analysis and review of the literature shows that the widespread implementation of paperless tickets would debilitate a viable, competitive and innovative secondary market. For consumers, this means fewer options in the primary market, a reduction of resale tickets in the secondary market, an increase in resale ticket prices, and a significant reduction in consumer welfare.

While these tickets may be paperless, for consumers, they are not costless.

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