

## Live music: Pricing the piper

### An economics lesson for the concert business

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ARE you longing to see Take That, a British boy band approaching middle age? More than 1.3m people are. So heavy is demand for the tour, which begins in Sunderland in May, that Britain's phone network at one point creaked under three to four times the normal weight of calls. But even sold-out concerts are never really so. Plenty of Take That tickets are for sale online—at up to five times the original prices.

For the hottest acts, the concert business is good. Lady Gaga and Justin Bieber have little problem selling tickets. Yet trouble lurks below the stratosphere. Pollstar, a research firm, estimates that the 50 biggest worldwide tours grossed \$2.93 billion last year—12% less than in 2009. StubHub, a large website on which tickets are traded, says the average concert-ticket price dropped by 18% between 2008 and 2010.

The long boom in live music, which saw American revenues rise from less than \$1 billion in 1995 to \$4.6 billion in 2009, has paused. Bands have pushed average ticket prices about as high as they can go, and tested the limits of punters' appetites with long tours. Michael Rapino, head of Live Nation Entertainment, said last year that 40% of seats routinely went unsold. To keep growing, the business will have to stop leaving money on the table.

Live music is one of the few businesses in which second-hand goods often sell for more than new ones. "As soon as a show sells out, front-row seats appear on the web for £600," says Rob Hallett of AEG Live. Tickets to see musicians such as Bruce Springsteen, who insists that entry to his shows be cheap enough for working stiffs to afford, are particularly susceptible to what fans call "price gouging" and an economist would call price discovery. Outfits such as Ticketmaster have tried to capture some of this huge secondary market by setting up ticket exchanges. But this leaves fans confused and suspicious. It is not easy for a firm to play both the primary and the secondary market.

Change is afoot. Front-row seats for desirable shows are increasingly marketed as "premium" or "platinum" tickets, sold at a high fixed price or even at prices that float according to demand. As *The Economist* went to press, for example, you could pay Ticketmaster about £200 for good seats at a Katy Perry concert in Manchester (the tickets' face value is £22.50). Punters are keen: Mr Hallett says premium seats frequently sell out first.

Some live-music events have also introduced a crude version of airline-style pricing, in which tickets become more expensive over time. T in the Park, a large pop shindig held in Scotland, pioneered the practice of offering discounted "early bird" tickets to build buzz. Other pop festivals are following, sometimes with "super early bird" tickets at lower prices.

This could be pushed a good deal further. American sports teams such as the San Francisco Giants are moving to allow the prices of all individual tickets to float according to demand (which means that unpopular games become cheaper). Barry Kahn of Qcue, a software firm that creates the algorithms, says the potential for dynamic pricing is much greater in pop music because there are no season-ticket holders.

There is a hitch, however. At least four players are involved in putting on a live-music show: an artist, a promoter, a ticket-seller and a venue. Locked in perpetual squabbles over the spoils, they find it hard to adopt more sensible pricing techniques. Even the creation, a year ago, of Live Nation Entertainment, a vertically integrated entertainment giant, has not significantly changed pricing practices. Many artists say they want to shut out the touts—an impossible task.

The music business has a long history of failing to innovate. Its inability to cope with file-sharing led to the collapse of recorded-music sales and the growing dependence on live music. That part of the business now needs to improve. Time to wake up and smell the spilled beer.