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Discuss the aspects of market competition surrounding secondary ticketing sales. From a theoretical standpoint, do you think that this is something that helps or hinders competition?

The fight for the best seats at any event regularly occurs in the ticketing market and secondary sales make claiming these seats significantly more competitive. Secondary ticketing sales create an inevitable third-party space for consumers to purchase tickets, where prices are higher than the original due to the high demands, it is said that 'even tickets for lower profile events are often resold above their list price' according to Krueger et al. (2008) [D]. There are many economic issues which could occur from these sales for not only consumers, but potentially the longevity of a monopolist or firm which dominates in the market. Initially, this seemingly natural market may look harmless as it is a method which can fulfil a consumer's needs, but the repercussions could be much worse than what we anticipated.

Good, but worse?

These secondary vendors are fascinating at enhancing competition as it provides opportunities for less market-dominating firms to benefit from the industry's profits and even earn more than a monopolist firm. Monopolies typically charge at higher prices as they have price-making abilities (P_M as shown on Figure 1), however this changes when other firms see potential to take profits within a market – which inevitably causes a monopoly to reduce their prices (between the regions 'a' and 'c'). From a theoretical perspective, this would benefit individuals since contesting firms help to reduce the monopoly's price and so increasing consumer surplus. Although this may not happen in the ticketing market due to the fixed number of tickets which can be bought. Instead, we may see secondary firms exploiting prices through purchasing the majority of tickets from the monopolist and then further raising prices when selling to consumers. They would have this ability since there are limited spaces in all types of venues and with little to no secondary firms who would be willing to reduce prices, consumers are forced into paying these skyrocket prices: brokers typically earn about '$3 million in revenue per year' in reselling tickets (Courty P. – 2003) [B].

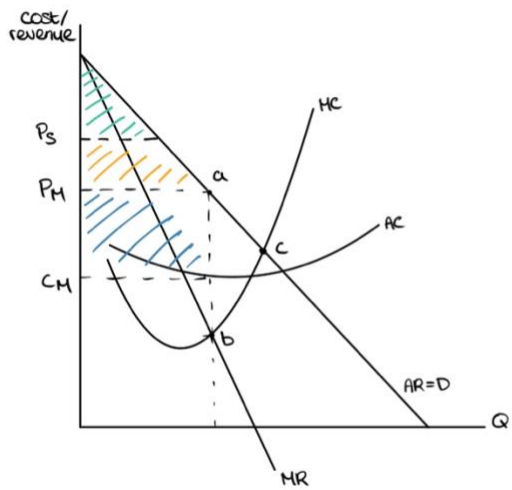

Figure 1: Monopoly diagram with different surpluses

Ticket brokers 'typically carry a large inventory of tickets for many events with a variety of seats, although they tend to concentrate on the best seats in the venue' [B]. This is very disadvantageous to consumers, especially ones with inelastic demand [0<ε<1] as they will experience unimaginable prices in order to obtain their desired space and the top cohort of willing consumers would accept these prices; allowing brokers to further earn more revenue. In turn, this would reduce consumer surplus since they will have to pay higher prices and be non-beneficial to the monopolist as they lose out on 'potential profits' – they could have more than what they are currently earning, and this is suggested through the higher prices charged by the secondary firms. We can see this diagrammatically (Figure 1): if secondary firms were to charge at P_S, then consumer surplus would reduce to the area above P_S and the monopolist have lost potential welfare between the area P_S and P_M (the yellow area).

Although, it has said that some brokers include additional benefits if purchasing through them, such as: 'seating charts, updated event calendars and sometimes packages including accommodation…' [B] This enhances competition in the ticketing market as third party competitors attempt to differentiate from each other in order to capture the desires of different consumers: potentially turning the market into an oligopoly. This could benefit consumers as oligopolies (assuming they are running under Bertrand Competition) will have lower prices compared to a monopoly: under this type of competition, a few firms will attempt to undercut each other's prices in attempts of gaining control of the market. As a result of this, the price that consumers face will be where price intersects the marginal costs of the firm (P=MC) instead of being at the normal profit maximisation price (MC=MR, where MC/MR is the additional cost/revenue of producing one more good or service); this is known as the Bertrand Paradox. Consumer welfare is said to be gained here as firms compete through different products instead of charging high prices, which provides a larger variety for consumers to choose from.

Therefore, we can see that secondary firms help to enhance competition through product differentiation: creating a variety of packages for consumers to choose from. Despite this, we have also seen that they're quite dangerous since they can use exploitive methods to gain further profits from the tickets, which could put the power of a monopolist at danger.

Verified Ticketing Vendors:

As we have seen, secondary ticketing vendors can produce some toxic outcomes for the industry's market and since they're inevitably present, monopolists could impose policies to prevent arbitrage and exploitation. One potential solution could be the original vendor verifying secondary ticket sales: the benefits of this is so they can regulate/impose different policies to ensure the market stays healthy.

This has already been implemented in the market and we can see it through the merge of Live Nation and Ticketmaster: the 'vertical integrations have resulted [in them] running the entertainment industry' as said by Holmstrom E. (2019) [C]. Essentially, they are one firm, and it is said that they own a staggering ‘70% of the ticket market’ [C]. From a monopolist’s perspective, we could say that this is an optimal solution since they are producing a large proportion of the market’s revenue, ‘generat[ing] over US$900 million from the resale market by 2014’ [C]. Revenues produced help with dynamic efficiency as the monopoly can reinvest back into the firm to further improve customer experience and other aspects of their business. The merge could also be considered beneficial for consumers due to the high regulations placed on price-fixing cartels and anti-competitive mergers. Regulation is imposed to prevent a monopoly from abusing its market power and thus consumers won’t experience as high of prices from these firms compared to secondary vendors which have no price limit to what they can sell at.

Furthermore, having a monopolist have control over secondary vendors would allow them to improve consumer experience. With modern technology, they could impose quantity caps through only allowing an individual to buy ‘x’ number of tickets on one ‘card-verified’ account online: there are many arbitrage methods such as setting up ticket bots which can ‘purchas[e] enormous numbers of tickets from primary ticket sites like Ticketmaster’ [C]. They would help to mitigate several negative factors – the monopolist could help reduce the number of scams and fraud tickets being sold as consumers will know that they can only purchase from verified companies, otherwise there is a high risk in their purchase; whilst also preventing market power being taken away from them.

Alternatively?

Another solution a monopolist could use is market proliferation, by creating a branch of verified vendors which creates internal competition between those companies. This monopolistic competitive structure would help with the longevity of the industry as it benefits both agents dynamically: consumers will stay happy as they have the illusion of choosing from a wide variety of products, whilst the monopolist will be able to maintain supernormal profit. Profits can evidently be seen through ‘IHG Hotels & Resorts’ and their gross revenue results between 2010 to 2021 (shown on Figure 2) [F].

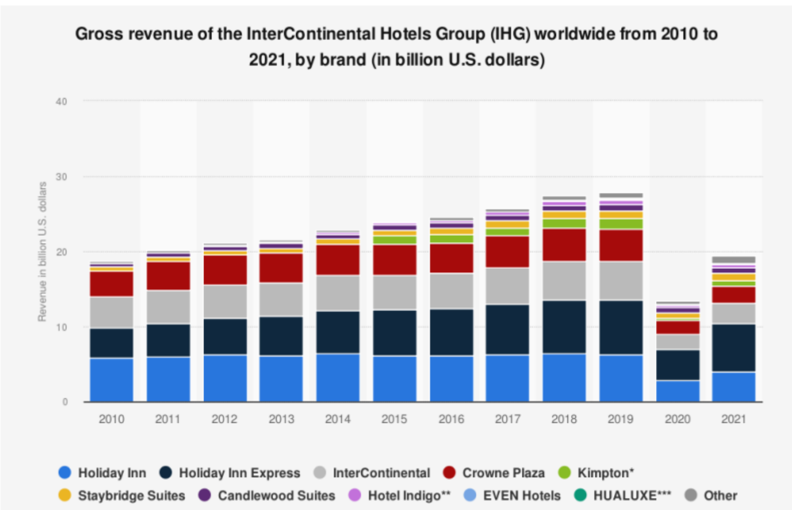

Figure 2: IHG’s Annual (Global) Revenue

Being the ‘largest hotel group with 4400 hotels worldwide’ as mentioned by Boley et al. (2013) [A], its annual revenues being on an upward trend (until COVID-19) and nearly accumulating to $30 billion (USD) in 2019 reflects how IHG is able to provide consumers with a variety of different ‘products’, whilst healthily having a majority of the market. If a solution like this could be similarly implemented into the ticketing market, all agents would be satisfied as the firm would be able to maximise profits and consumers would be able to safely purchase tickets at reasonable prices.

Although we see many benefits through running the ticketing industry using monopolistic competition, we must think about arising issues about having only one firm in charge. For instance, there have been incidences where Ticketmaster have intentionally misled consumers into paying at higher rates, using drip pricing: ‘a marketing technique in which a business advertises a certain price, only to reveal hidden, mandatory fees later on in the purchasing process’ [C]. Creating information gaps and charging ‘arguably deceptive’ [C] prices is certainly not beneficial for consumers and could potentially worsen market failure. To add, in a realistic scenario, a monopolist won’t always have good morals, so the actions they make may not always lead to good intentions for the market and this could impact on dynamic efficiency. Theoretically, monopolists are good in the long run as they have the ability to stimulate research and development which consumers will benefit from through innovative ideas and products. Though, this doesn’t always happen as profits are not reinvested back into the firm due to corruptive behaviour and lack of competition hence, dynamic efficiency will be lost.

Thus, we could argue that secondary firms are needed not only to upscale competition, but to also prevent concentrated firms from taking advantage of their market power as monopolies don’t guarantee the alleviation of exploiting consumers.

Verdict:

Secondary firms hinder competition as they simply overprice consumers in order to maximise profits with no intentions of reinvesting back into the industry and so causing inefficiencies and significant loss of welfare to agents all around. For that reason, monopolistic competition would be the most optimal market structure for the ticketing industry as it allows for a competitive environment whilst also preventing the overexploitation of prices to consumers (in comparison to secondary sales). Despite this, secondary firms in the ticketing industry have potential, in the future, to enhance competition with the correct policies and regulations being imposed as they would encourage the monopoly to use profits appropriately and reinvest, so that they are ahead of competitors.

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