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The value is in the scarcity, but also in the convenience

What can the economics of ticket touting teach creators about the pricing of their music?

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Could creators benefit from a new approach to selling the convenience of their music? Will Page, economist at the MCPS-PRS Alliance looks at the arguments for and against with reference to other pricing models both within and sitting outside the legitimate economy.

At first glance, music creators everywhere might envy the economics of ticket touting.

Here is a secondary market that achieves huge revenues for the black economy at the expense of the primary market.

To show how this works, let's take a look at a 2005 study by economists Connolly and Krueger who analysed the pricing levels of tickets sold on the primary and secondary markets during Bruce Springsteen's *Rising* tour in 2002.

The list price for Springsteen tickets on that tour was $75, which most fans paid. But in the secondary market, ie the amount the touts charged to those who bought later (accounting for about 20-25% of tickets sold), the ticket price averaged $280.

Actual revenues collected by Springsteen and his entourage on the 19,738 legitimate ticket sales were $1.5million. At the secondary market rate, Springsteen and his band could have netted an extra $4million (= [$280-$75] x 19,738).

That aside, the actual revenues collected by the secondary market were between $1.1 and $1.4million according to the study estimates, leaving Springsteen light by at least that amount.

So, why didn't Springsteen charge more for his music and what can we learn from ticket touts about pricing music?

Various theories have been proposed for why a company might price its services below a level that the market might otherwise bear. None are entirely satisfactory in the long run, but if one accepts that concert-going is a social event, made more enjoyable by the presence of a bigger audience, then the fairness of the pricing is likely to become the more important consideration, rather than the economics of the transaction (Kahneman, et al. 1986).

Courty (2003) suggests there are two types of consumers for live entertainment events: the early-adopters (or die-hard fans) who will secure a ticket in advance come-what-may (and for this group, fairness will be an important purchasing consideration). For the rest, they'll wait to see if their diaries will enable them to attend the event. As time elapses, the uncertainty is resolved for the latter group and these late-demanders are prepared to pay a higher ticket price for the convenience (ie they are effectively paying the price of flexibility - and are happy to once demand has outstripped supply).

One difficulty in using the ticket tout analogy to help us find a new model for the licensing of creator content is that in the ticket tout model we are also dealing with the economics of scarcity. There are a finite number of tickets available and if demand outstrips supply, the market will bear whatever price anyone is willing to pay.

So, is there anything that we can learn from the airline ticket pricing model adopted by such companies as Easyjet. Here, prices rise legitimately the closer you get to departure time.

If Springsteen had charged the ticket tout rate, he could have earned an extra $4million

This is less about scarcity (although it's true that airline tickets are finite) and even less about the secondary market, but it stresses even more the power of the economics of convenience.

Can a similar 'convenience' pricing model therefore be applied to licensing the music of creators?

Of course, scarcity is not something that is on our side. The traditional blanket licensing approach is a sell on the economics of scale, not scarcity, but there might yet be a market for selling convenience. Consider the point of broadcasting to the public as analogous to the flight departure time in the airline model. There may be benefits for all if the cost of the music to the production company increased as the date of broadcast approached.

Not only could this ensure greater revenues for creators but it may also bring additional benefits; for instance, reducing the occasions when production companies clear rights after the broadcast and increasing the reporting qualities from production companies by offering incentives to plan ahead.