**TICKETONOMICS**
March 07, 2009

As Concert Revenue Rises, Some Seats Are Still Empty—And Promoters Suffer. The Answer Could Come From The Airline Industry
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Last September the Latin pop superstar Luis Miguel came to San Diego to perform a concert at the Cricket Wireless Amphitheatre. Demand for tickets was expected to be high: The city has a large Latino population, Miguel was building a crossover fan base, and the tour was one of his most successful outings in North America. ¶ The show excited some fans, who bought the most expensive tickets for $250—or much higher prices on the so-called "secondary market." The concert grossed $808,575, according to Billboard Boxscore, an impressive total for a 19,000-capacity venue. Miguel could have made up to $730,000, based on the common concert industry practice of giving the artist 90% of the box-office gross and leaving the other 10% for the promoter.But the promoter in question—concert business giant Live Nation—may not have made money on the show.

The concert appears to be a success until one looks at the money left on the table. Although the Cricket Wireless Amphitheatre can hold 19,391 fans, only 11,045 bought tickets to see Miguel. The singer made money, thanks to a gross driven by a high top-ticket price. But Live Nation makes most of its money on the things people buy once they get to the concert: concessions, parking and its split of Ticketmaster's service charges. And all of those things sell better when a venue is full—no matter how much people pay for tickets.

Herein lies one of the biggest problems with the concert business: While performers make much of their money from the most expensive tickets, promoters make much of theirs from the cheapest, which they need to sell in order to then sell ancillary goods. So even as grosses have grown by double digits in the past decade, thanks to increases in ticket prices, declining attendance has kept profits down for promoters.

Testifying Feb. 24 before the Antitrust Subcommittee hearing on the Ticketmaster-Live Nation merger, Live Nation CEO Michael Rapino faced questions from politicians representing fans who feel gouged by rising ticket prices. But Live Nation, and other promoters, could make an argument—although they wouldn't do so, because of industry politics—that they are being gouged by artists who want to make more on performing to make up for the revenue they've lost from declining album sales. After all, Live Nation is not consistently profitable. Part of the company's problem is that rising guarantees for artists force promoters to price tickets higher than they might want to, even if that makes it hard to fill venues with enough hungry, thirsty bodies to sell the concessions they need to make a profit. And since many promoters have to make mortgage payments on venues whether they're filled or not, they need performers every bit as much as performers need them.

"Every time a consumer walks in the door I make about $12-$14 on the ancillary business," Rapino testified. "I lose $80 million at the door [annually]. An average promoter, if he's lucky, makes about $4 out of every $100 on the ticket price."

Whether the Live Nation-Ticketmaster merger goes through, promoters face the challenge of maximizing their revenue for the best seats while ensuring to fill the worst ones. And as they move forward, they might take a good look at a business that has been doing that for years: the airline industry.

Airlines, as well as hotels and rental car companies, practice "yield management," a theory of pricing posited by Dr. Matt H. Keller and pioneered during the '70s. To most people, it's the arcane science of why a round-trip ticket from New York to Los Angeles can cost anywhere from $300 to $5,000 depending on class, timing and other variables.

Like the concert business, airlines sell goods that are minimally differentiated and perishable—that is very similar and worthless after a certain time. Everyone on an airplane gets to the same place at the same speed, just as everyone at a concert sees the same show—the only differences are the quality of seats and VIP treatment. And each plane ticket must be sold before a flight takes off, just as concert tickets have to be sold before the show starts—so it's in the interest of the seller to get some money, rather than no money for them, even if it's not very much.

The parallels between air travel and concerts certainly aren't perfect. Unlike air travel, where many companies compete to offer very similar service, performers are unique: It's one thing to fly United instead of Continental, quite another to see Coldplay instead of Radiohead.

But it's easy to imagine that concert tickets will be priced more like air travel, with a far larger difference between the most and least expensive tickets. "When you look at the challenges that come with applying yield management to live event tickets, the first thing that occurs to me is that most primary pricing is done by experience from the promoters, the artists and management, through gut feeling," says Michael Janes, founder/CEO of ticket search engine FanSnap and a former chief marketing officer for StubHub. "It makes sense for these guys [in the concert business] to try to add some science to it if they can."

Indeed, one could argue that promoters have been gradually moving toward this model over the last decade. Since 1998, the price of concert tickets has increased more than inflation, as congressmen weren't afraid to remind Rapino. But the most remarkable difference between then and now is the difference between the priciest and the least expensive tickets, as well as the variety of price points between them. And while the increase in the lowest prices modestly beat inflation, the growth in the highest blows it away.

In 1998 a Rod Stewart ticket cost as little as $20 and as much as $85—a 325% difference. Last year, the lowest price went up by about 50%, to $29, but the highest price tripled, to $250; that's a 762% difference. That's not an isolated example (see list, right): The price of Eric Clapton tickets rose in a similar fashion. And, of course, some promoters have always quietly unloaded unsold lawn seats at fire sale prices the week before a show.

The price range for airline tickets is much wider—almost always more than a 1,000% difference between coach and first class. One of the most important variables is when tickets are purchased. And the concert business has also embraced this, after a fashion, in the secondary market, which charges a premium as concerts approach, then reduces prices at the last minute.

Promoters and artist managers already agonize over yield management every time they price tickets, according to music business accountant/tour producer Bill Zysblat, a partner in RZO Productions. "The ideal is to have exactly one person wanting a ticket at a sold-out show every night," he says. "No matter how unrealistic that may be, that result tells you that you have properly scaled the house for the maximum revenue at a given demand point. Any more than one and you could have priced something higher. Any less than one and you priced something too high."

Theoretically, airline-style pricing would solve this problem, but most bands might prize their reputations over cold economics. In almost every case, a significant number of the best seats in a venue sell for far more than their face value on the secondary market. But even though they could make more money by doing so, artists have been reluctant to raise prices to that level themselves.

At the same time, Ticketmaster and Live Nation are now gathering the kind of data they need to understand consumer buying patterns so they can price tickets more effectively. "Understanding customer buying patterns allows companies to create packages and price points that meet the needs of price-sensitive customers, while being business reasonable," says Zach Cross, VP at Revenue Management Strategy, a consulting company that specializes in yield management. "The key is making sure you don't displace higher-paying demand. The lower ticket prices would just only go as low as you need to go to meet demand."

To Cross, the real key to using yield management in the concert business would be forecasting demand. "You would probably want to forecast by a number of different variables—genre, venue, event, section, row, customer segment, etc.," he says. "Once you have forecasts by these different dimensions you can make optimal inventory allocation decisions."

Those decisions could make the difference between profit and loss. As in the airline business, the best seats don't actually cost that much more than the worst seats. Much as that $5,000 first-class seat comes with an additional $200 worth of food and service, a $500 VIP concert package might include a T-shirt, an autograph and a CD—hardly significant expenses compared with the additional revenue they bring in.

These kinds of pricing could make a significant difference in the amphitheaters that dominate the summer touring season. As an example, Zysblat says, consider a 22,000-capacity amphitheater that's hosting a show where tickets cost an average of $200 and general admission on the lawn goes for $30. A full 75% of the gross would come from about one-quarter of the seats.

"So while the amphitheater owner may want the parking and concession sales from the $30 ticket holder, that ticket is monetarily less important to the band, putting aside the emotional importance of playing to a full house," Zysblat says. "Nevertheless, it's back to yield. Would you rather sell half of the lawn at $30 [per ticket] or all of the lawn at $15? Clearly you would rather sell all of the lawn and gross the same. And if the math was always that simple, that's what would happen."

For artists, gross revenue is gross revenue—it doesn't matter whether it comes from fewer expensive tickets or more cheap ones. For promoters, though, it's a matter of life and death. "I would make a case that while [the concert business is] trying to milk the last dollar out of the premium ticket, their real opportunity is trying to figure out how to move those unsold tickets," Janes says. "There has to be a real high margin and fixed cost to staging an event, and those unsold tickets have to be almost pure profit."

And what about the fans in those seats: What would they think? And what would they think if they bought a ticket early on for $200 only to sit next to someone who waited until the last minute and spent half that? It's easy to imagine blogs filling up with bile at this very idea. But festivals like Lollapalooza and Bonnaroo already sell VIP packages that offer an extensive menu of perks, at events that spring from subcultures that would seem to frown upon that kind of thing.

Cross thinks fans might not care as much as people think. If a show blows them away, any buyer's remorse will evaporate. "You don't know how many times people say, 'We bought the same thing, we're sitting next to each other on the same plane, why am I paying more than you?' But we really didn't buy the same thing," he points out. "You might have booked yesterday and I booked three months ago. The way I look at it is [yield management] allowed me to book a cheap ticket and saved you a seat. The same can hold true for a concert."

At the very least, some artists will want no part of this. Bruce Springsteen, Pearl Jam and Dave Matthews have never charged as much as they could for their tickets, and they'd be unlikely to start now. Price changes could also represent an image problem. "If word gets out that 75% of your show was sold at a discount," Janes says, "that's not good for the brand."

In the long run, however, some changes in ticket pricing are simply inevitable—and they've already been happening gradually. If the world's largest promoter can't consistently make a profit at a time when the concert business is growing, something has to change.

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