Sport Ticket Pricing: Innovative Revenue Generating Strategies

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Come the 1920’s, there was substantial growth in organized sport in the United States. Wealthy as well as middle- and working-class individuals had increased participatory activities (Sage, 2000). In fact, “major connections between sports and American society had been firmly established...they were linked to major social institutions such as the family, religion, education, the economy, the government, and the media” (Coakley, 2007, p. 76). One example of sports taking on a national identity for the U.S. is baseball. This, in part, is due the efforts of William Hulbert (the “Czar of Baseball”), who took over the National League of Professional Baseball Players in 1876 (Leifer, 1995). Interestingly, he may also be one of the first U.S. sport examples of ticket valuation, a point which helps to transition this brief historical account to the purpose of the current paper.

William Hulbert wanted to reach a larger segment of Middle-Amercia, and in order to do so, he needed to improve the integrity of baseball and develop a more “wholesome” social atmosphere. Consequently, Hulbert raised ticket prices, which would decrease the working-class patrons and make baseball more appealing to the middle- and upper-class markets (Abrams, 1998). Therefore, one role of this paper is to provide a basic overview of sport growth in the U.S. and how this relates to pricing theory (e.g. price elasticity and inelasticity). However, the primary purpose is to provide a comprehensive review of literature for sport ticket pricing and from this foundation, outline three areas representing significant advancements for ticket valuation research within sport. These three areas include: stadium development and spectator willingness to pay ticket prices, the secondary ticket market, and variable ticket pricing (VTP).

Sport Ticket Pricing

When examining ticket pricing in sport, it is important to consider league specific research. For instance, Reese and Mittelstaedt (2001) concluded the most important factors impacting a National Football League (NFL) team’s pricing structure were: (1) performance from the previous season, (2) organizational revenue needs, (3) public relations, (4) market price sensitivities, (5) fan identification, and (6) average NFL ticket price. It is also important to consider club objectives and ticket pricing (a win maximization hypothesis or profit maximization hypothesis), the factors that generally impact consumer demand (e.g. ticket scarcity), as well as those factors apart from demand which may impact increases in ticket prices. For example, a new stadium; this is an added expense that team owners can recoup through increased ticket prices (Fort, 2002). As noted by Rishe and Mondello (2003), “the demand for pro sports entertainment is relatively inelastic, a portion of the costs associated with a new stadium is passed on to the consumer” (p. 74).

New Stadium and Spectator Willingness

Along with the basics of sport ticket pricing, one useful research contribution would be to explore the relationship between willingness to pay for increased ticket prices and the “honeymoon effect”. In particular, if the honeymoon effect could be prolonged, then this may afford sport teams the opportunity to extend a consumer’s willingness to pay a higher price for a team’s tickets (regardless of other factors that may impact demand, such as team performance from the previous season). A good starting point to build on the need for this area of research is McEvoy, Nagel, DeSchriver, and Brown (2005). In their paper, McEvoy and colleagues examined facility age and spectator attendance in Major League Baseball (MLB) through the use of an economic demand model, which allowed them to examine this relationship from 1961—2001. From the data, McEvoy et al. reported that a curvilinear relationship does exist between facility age and attendance. A “nostalgia effect” was reported after the 48th year, but prior to that, highest attendance was found during the first years of a new facility (decreasing thereafter). No mention, incidentally, was provided on how to best capitalize on the honeymoon effect and delay the steady decrease in attendance post-honeymoon period. As sport stadiums evolve from multi-million to billion dollar facilities (e.g.
Cowboys Stadium), a significant area of study for sport ticket pricing is to provide evidence for how sport teams can prolong the honeymoon effect while also maintaining spectator willingness to pay increased ticket prices.

Secondary Ticket Market

Another area of relevance is the secondary ticket market. Drayer and Shapiro (2009) believed finding a balance between optimal ticket pricing and providing the opportunity for many types of consumers to attend games is a challenge facing the sport industry. This pricing strategy is what Courty (2003) called “underpricing”. While underpricing might have opened the door for many types of fans to attend a sporting event, it also opened the door for others to make a profit where the teams themselves were not. Depken (2006) believes if ticket prices are set below market levels this creates a secondary market for tickets where prices might be much higher than that of the face value. The presence of a strong secondary ticket market for certain events where people can resell tickets to events and make a profit indicates that in many instances, tickets are not priced optimally (Boyd & Boyd, 1998).

Variable Ticket Pricing

This secondary ticket market has produced millions of dollars for those not directly associated with sporting events and teams. Subsequently, sports properties began to question if there is money being left on the table because of underpricing, how can they figure out a way to capture this (Courty, 2003). Price optimization has been used by the airline industries since the 1980’s (Kadet, 2008) as a way to charge passengers different prices for the same basic product dependent on several variables. American Airlines was the first to introduce price optimization software followed by Delta Airlines, who were able to create $300 million in the first year of use (Smart Money, 2008). While the hotel and airline industry use a true price optimization software, the sport business industry has started to use what Howard and Crompton (2005) call differential pricing. It is based on two main variables: (1) time of event and (2) place (e.g. seating location). They go on to state that the intent of differential pricing is to encourage use of services at off-peak times to maximize revenue production during peak demand times. This pricing strategy is set well before the event, instead of changing like in the airline industry. This type of pricing has been used for years in college football ticket pricing. Of late, it has even started catching on in the professional ranks, where a variety of sport organizations have implemented variable ticket pricing in an effort to maximize revenues (Rascher, McEvoy, Nagel & Brown, 2007).