Examinin Consumer Valuations of Sport Event Tickets and the Influence of Face Value

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The introduction of variable ticket pricing and real-time pricing in the last decade has indicated that ticket pricing strategies in the primary market for sport event tickets are moving away from a cost-based strategy and towards a demand-based strategy. Before a team can determine what to charge for tickets in a demand-based environment, they must first determine what the demand actually is. Drayer and Shapiro (2009) stated that: “The optimal way to measure demand is by looking at prices that fans are willing to pay” (p. 6).

The contingent valuation method (CVM) is often used to determine consumers’ willingness to pay (WTP) for goods. However, many CVM studies have concluded that WTP may not be the most accurate measure of consumer value and that researchers should also consider the minimum price consumers would be willing to accept to sell an item (WTA). Standard economic theory suggests that, controlling for income effects, WTP and WTA should be equal (Freeman, 1979; Kahneman, Knetsch, & Thaler, 1990; Knetsch & Sinden, 1984; Willig, 1976). However, virtually all CVM studies show that WTA is greater than WTP, a concept referred to as the endowment effect. “The endowment effect describes the fact that people demand much more to give up an object than they are willing to spend to acquire it” (Huck, Kirchsteiger, & Oechssler, 2005, p. 689). While often used to assess the value of non-market goods, many CVM studies have examined the value placed on market goods as well. For example, Bishop and Heberlein (1979; 1985) and Brookshire, Randall, and Stoll (1980) found strong evidence for an endowment effect for hunting licenses. Carmon and Ariely (2000) conducted a study of Duke University basketball tickets which examined the factors that affected WTP and WTA differently. They found that significance of the game and expected climate within the stadium affected selling price (WTA) more than buying price (WTP). However, they did not explicitly test for an endowment effect. To date, there have been no studies which have specifically measured the endowment effect for sport event tickets.

Additionally, Kahneman, Knetsch, and Thaler (1990) found that displaying the actual price of an item (a box of pens) reduced the perceived value of that item. Kahneman, Knetsch, and Thaler (1986) stated: “Market prices, posted prices, and the history of previous transactions between a firm and a transactor can serve as reference transactions” (p. 730). Given that prices in the primary market are frequently based on the revenue needs of the organization (Reese & Middelstaedt, 2001), face value (or the posted price) is not an accurate measure of demand and may influence consumer valuations of tickets (Drayer & Shapiro, 2009). By removing this reference price from consumer perceptions, sport properties may be more easily able to switch to a demand based pricing structure where market prices would serve as the reference price instead of the posted price on the ticket. This could mitigate organizational concerns about the perceptions of price gouging associated with moving to a demand-based pricing structure (Drayer, Stotlar, & Irwin, 2008).

The purpose of the study is to determine if the value consumers place on tickets to a sporting event differs based on whether or not they are trying to buy the ticket or sell the ticket. Given the influence of posted price on consumer valuations (Kahneman, Knetsch, & Thaler, 1990), this study also examines the impact that face value has on valuations for sport event tickets. Gaining an understanding of measures of consumers’ valuation of tickets is of particular importance given the increase in demand-based pricing strategies in the primary market. Additionally, the secondary ticket has grown immensely in the last decade and now virtually everyone has the ability to buy and sell tickets freely (Drayer & Shapiro, 2009). In this setting, where prices are often demand-based, both WTP and WTA questions are critically important in predicting appropriate prices where transactions will occur (Drayer & Shapiro; Drayer, Stotlar, & Irwin, 2008).

Within this large study, there are four small experiments. The first experiment placed participants on the “buy” side of the experiment. They were shown a ticket with a face value printed on the front of the ticket and asked how much they would be willing to pay for this ticket. In the second experiment, a different group of subjects were shown the same item and asked how much they would be willing to sell this ticket for if they owned it. The third and fourth experiments were essentially the same as the first two; however, the ticket that was shown did not have a face value
printed on it. All participants were asked additional questions related to their demographic profile, interest in the event, and attendance/viewership. In addition, respondents were asked to consider other entertainment options that would give them similar pleasure compared to the sporting event, and to estimate the expected cost of these items/experiences (which were called pleasure equivalent, Carmon & Ariely, 2000).

Given the intricate process described above, the researchers required a captive audience to participate in this study. Therefore, the student population at a mid-sized, Southern university was asked to participate in this study. Additionally, the item chosen for bidding needed to be familiar to the subjects. “The rationale given for needing familiarity is the assertion that respondents cannot have well-defined preferences in an economic sense for goods with which they have no direct experience” (Carson, Flores, & Meade, 2001, p. 178). Therefore, tickets to a local National Basketball Association game were chosen as the item to be valued.

It is important for studies of this nature to be as realistic as possible in order to encourage realistic and reasonable responses (Frykblom, 1997). To do this, two participants on the buy side and two participants on the sell side were chosen at random to have the option to actually engage in the transaction indicated on the questionnaire. The chosen subjects on the sell side were each given a ticket for free and the chosen students on the buy side had the option to buy the ticket from the selling student for the price stated on their survey.

Three research questions will be used to examine face value and endowment effects. First, WTP and WTA differences will be examined for the face value group and the no face value group separately. We propose that WTA will be higher than WTP for both groups and perceived value of tickets will be greater for the no face value group compared to the face value group. Second, the gap between WTP and WTA will be compared between the face value group and the no face value group. We hypothesize this gap to be greater for the no face value group. Finally, game importance, game interest, attendance/viewership, and pleasure equivalent will be examined to assess the influence of these variables on both WTP and WTA.

The results of this study will provide academicians and practitioners with important information regarding consumer value judgments and the influence of ticket face value. These findings will provide evidence of the existence of an endowment effect within the context of sport event tickets, the importance of reference prices, and the need to further consider consumer perceptions of value when pricing tickets.