Examining the Effect of Legitimacy-Building Strategies in Secondary Ticket Market Firm Performance

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There is a significant body of research which suggests that organizational legitimacy is among the primary predictors of both firm and industry success (Palazzo & Richter, 2005; Singh, Tucker, & House, 1986; Zimmerman & Zeitz, 2002). This is particularly true of new firms and industries, which have notably higher mortality rates than their more mature counterparts (Carroll, 1983; Carroll & Delacroix, 1982; Stinchcombe, 1965). Within the sport industry, online ticket brokerage has emerged over the last decade and produced many resale firms, both large and small. While the ticket resale industry has actually been in existence for many years, the advent of the Internet has forever altered its size and scope as buyers and sellers can now broker virtual deals across the globe. As such, the industry is now dominated by online secondary ticket marketplaces such as StubHub and FanSnap which facilitate many of these transactions. As a result of the Internet’s ability to connect buyers and sellers, a 2009 MarketWatch.com report assessed annual website sales at approximately $3 billion and projected revenues of $4.5 billion by 2012.

In 2010, Drayer and Martin suggested that secondary market firms, particularly the web-based ticketing platforms that now dominate the industry, were actively engaging in strategies designed to enhance the perceived legitimacy of both their individual business as well as the industry overall. The authors found two primary ways in which these web-based platforms seek organizational and industrial acceptance: entering into secondary market partnerships and lobbying for the deregulation of anti-ticket-scalping laws. Secondary market partnerships with established sport entities (both leagues as well as individual teams) most often resemble a traditional sponsorship agreement whereby the sport organization receives a fee in exchange for their exploitable commercial potential. These collaborative efforts between sport organizations and online resellers are designed to benefit both parties financially, while also enhancing the perceived legitimacy of the sponsoring firm (Drayer & Martin, 2010). Lobbying for the deregulation of lingering anti-ticket-scalping laws is another tactic employed by secondary market firms in order to foster legitimacy (Drayer & Martin, 2010). Currently, almost half of the states in the country still regulate ticket resale to some degree. State laws governing ticket brokerage typically place restrictions on resale location, pricing, or types of events for which tickets may be resold, and can also require an individual to obtain licensing prior to engaging in the practice. As the secondary ticket market has become primarily web-based, however, many of the statutes in place have become practically unenforceable (Drayer, Stotlar, & Irwin, 2008). The difficulty lies in attempting to impose local and state statutes on transactions that span local, state, and national boundaries. These enforcement challenges have resulted in a number of these laws being weakened, modified, or repealed (Drayer, 2011).

Given StubHub’s efforts towards securing primary-secondary market partnerships and their lobbying efforts to change ticket resale laws (Drayer & Martin, 2010), the purpose of the current paper is to examine the effect of these variables on their sales output. In other words, are the primary legitimacy-building strategies implemented by StubHub truly related to enhanced firm performance? The results of this study can extend the work of Drayer (2011) and Drayer and Martin (2010) while informing secondary market firms as well as state and local legislatures (many of which are considering changes to existing anti-scalping laws) who may use the findings in their strategic decision-making process. The following research questions guided this study:

1. Do the number of ticket resale transactions or the resale cost per ticket differ based on secondary ticket market partnership status?

2. Do the number of ticket resale transactions or the resale cost per ticket differ based on legal restrictions in the local market?
StubHub provided ticket resale figures for all 256 regular season games which took place during the 2007-2008 NFL season. The data supplied for each game included number of ticket resale transactions as well as per ticket resale cost. Additionally, the home team for each game were classified according to their secondary ticket market partnerships (1=StubHub, 2=TicketExchange, RazorGator, Viagogo, or TicketsNow, 3=no partner, 4=in-house) and applicable state resale regulations, with regard to both location restriction (a=resale must be conducted “off premises” or up to 20’ away from venue, b=no restrictions, c=resale must be conducted > 200’ from venue) and pricing limitations (A=no resale price restrictions, B=resale cannot exceed face value + up to $3 markup, C=resale cannot exceed face value, D=resale cannot exceed face value + up to 50% markup).

Two analysis of variance (ANOVA) procedures were conducted to determine if secondary market partnerships had a significant impact on the number of resale transactions or ticket resale costs for each game. The ANOVA model assessing differences in number of transactions based on partnership was significant (F(3,251) = 16.09, p < .001). With regard to the number of resale transactions, post hoc Tukey analysis revealed that organizations partnering with StubHub saw a significantly higher number of resale transactions than any teams partnering with any other reseller (p <.001). The ANOVA model assessing differences in ticket resale cost based on partnership was also found to be significant (F(3,251) = 26.79, p < .001). Tukey analysis indicated that resale prices were significantly lower for organizations partnering with StubHub (p <.001) or any other secondary market provider (p <.001).

ANOVA procedures were also performed to establish whether state anti-scalping restrictions had a significant impact on the number of resale transactions or ticket resale costs for each game. The model assessing difference in number of transactions based on location restrictions was significant (F(2,252) = 5.16, p = .006). Post hoc analysis showed that markets requiring tickets to be resold “off premises” saw a higher number of transactions compared to states with no location restrictions (p = .004). The ANOVA model assessing differences in ticket resale cost based on location restrictions was significant (F(2,252) = 4.65, p = .010). Further analysis revealed that markets requiring resale to be conducted more than 200’ from the venue observed lower ticket resale prices as compared to markets with no distance from venue restrictions (p = .070) or states with “off premises” requirements (p = .007). The model evaluating differences in number of transactions based on price constraints was significant (F(3,251) = 6.72, p < .001). Post hoc analysis showed that markets which limited ticket resale prices to face value saw a greater number of transactions than did other markets (p < .028 for all comparisons). Finally, the ANOVA model assessing differences in ticket resale cost based on pricing restrictions was significant (F(3,251) = 8.31, p < .001). Tukey analysis found that markets allowing a moderate percentage-of-face-value markup saw significantly higher ticket resale prices compared to markets with no resale restrictions (p <.001) or those in which resale price cannot exceed a ticket’s face value (p <.001).

The results of the current study have a variety of practical and theoretical implications. First, games in which the home team had an official partnership with StubHub had a higher number of transactions on StubHub, indicating that fans view official secondary market partners as a secure and viable outlet from which to acquire tickets. However, this increase in secondary market supply resulted in a corresponding drop in average ticket cost. As expected, spatial restrictions on ticket resale did not affect the number of transactions or ticket resale price, as these laws are primarily directed at street scalpers. However, statutes governing secondary market prices did have an impact, particularly with regard to number of transactions. In this case, sellers may be educated about the enforcement challenges in an online environment and therefore prefer to conduct their business in the relative anonymity of the StubHub marketplace. Additional findings, implications, and suggestions for future research will be presented.