An Agency Theory Perspective of Third-Party Ticketing Partnerships

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Over the past decade, intercollegiate athletic departments have competed not only for wins on the playing fields, but also against each other for the most lucrative facilities, talented coaches, and comprehensive student-athlete resources. From a business standpoint, however, many athletic departments are still struggling financially. Despite substantial broadcast guarantees, expenses are rising faster than revenues and ticket sales have flat-lined for the average school (Fulks, 2014). In response, colleges and universities have turned to outside organizations to generate these much-needed ticketing funds. In fact, the two largest Third-Party Ticketing Partners (TPTPs) operating within their host athletics departments and representing over 50 different athletic departments, accounted for over $300 million dollars of ticketing and donor revenue in 2015 (imglearfieldticketsolutions.com, 2016; theaspiregroupinc.com, 2016).

TPTPs entered the college landscape around 2011 (Berkowitz, 2011), which indicates that this phenomenon is quite recent. TPTP agreements differ greatly from traditional multimedia contracts that have been around for decades due to their complete integration of the partner into an athletics department. By partnering with third-party ticket sales providers, schools have placed their most valuable asset -- fans -- directly in the hands of an outside organization. Many schools have expressed strong endorsements of their ticketing partners, praising their sales and management expertise, along with better resource availability and advanced analytics (Scanlan, 2015). However, other schools have opted to terminate their relationships with their ticketing partner within as little as one year, citing a “change in philosophy” as the primary reason (Davis, 2016).

The relationship between a TPTP and an athletics department includes balancing the business objectives of two different organizations, potentially with differing goals and beliefs. When looking at the literature regarding an association between two businesses, agency theory stands out as an appropriate medium to approach the problem. Agency theory builds off of the work of Jensen and Meckling (1976) attempting to describe problems that arise when one organization or stakeholder works on behalf of another. This theory lies on the foundation of a principal-agent dyad, with the agent as the party working on behalf of the principal. Typically, agency theorists agree there will always be goal incongruences between the two; however, limiting such incongruences and aligning goals as much as possible results in the optimal outcomes. In order to maximize revenue and provide quality service, agency theorists would suggest attempting to minimize goal incongruences between the TPTP and its host school would be vital. Therefore, the purpose of this presentation was twofold: to conceptualize the relationship between TPTPs and athletics departments using the lens of agency theory, and investigate common goal incongruences, offering propositions to frame a successful partnership.

In order to investigate the problem addressed in this recent development, the study examines common tenants of agency theory and applied practical examples that use the theory as a possible guide for a solution. The study uncovered many applicable parallels between the model of agency theory and the phenomena of TPTPs. Examples include the existence of bonding costs described by Eisenhardt (1999), as well as Rapp’s (2009) suggestion that outsourcing can create goal incongruences due to devious behavior described by agency theorists as “moral hazard.” The relatively short length of the contracts creates a possible imbalance in priorities between the two parties, and agency theory implications would suggest longer term contracts might prove beneficial in achieving goal congruency. Additionally, a common dilemma in TPTPs includes the importance placed on football and men’s basketball, while lower-revenue sports are neglected. Agency theorists would posit that this behavior is best addressed through contract adjustment/enforcement, and that a bonus-laden contract with lower sales commissions but large bonuses would reinforce smaller scale sports and take the emphasis away from only selling football. Lastly, the study suggest
that agents are typically selected due to their expertise or resources, highlighting the fact that many athletics departments do not have the necessary experience or infrastructure to house their own departments. In these scenarios, Rapp (2009) noted the burden of risk shifts from the principle to the agent and it is likely a TPTP would yield a positive benefit.

TPTP agreements place the TPTP on the “front lines” as representatives of the college or university; fielding incoming calls, complaints, inquiries and resolutions. The impact of this unique integration is still unknown and the responsibility placed on TPTPs is immense, and largely unexplored. This study sheds light on the practice and grounds implications with academic theory to provide practically applicable conclusions.