



TICKET BROKERAGE AN INDUSTRY STUDY

Things you will learn from this whitepaper:

1. What are some of the most common challenges facing the ticket brokerage industry?
2. What other industries have a meaningful affect on the ticket brokerage business?
3. How do government regulations affect the ticket brokerage industry?
4. How have ticket brokerage agencies affected local economies?

This whitepaper will have special interest to:

1. Attorneys consulting with ticket brokerage firms considering mergers or acquisitions.
2. Judges presiding over business disputes & litigation cases.
3. Business mediators & arbitrators.
4. Financial & income tax advisors.
5. Those concerned with the valuation of ticket brokerage agencies.

Notice & Disclaimer

In a forensic accounting setting, the purpose of an industry analysis is to allow a comparison of the subject company to its industry. This comparison is vital to assess the strengths and weaknesses of the subject company, as well as its industry and company specific risks.

The following study contains a brief, selected analysis of the specified industry. It is based upon a review of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous internet sites. It does not purport to be all-inclusive or to contain all of the information which a prospective investor or lender may require. Projections and opinions are based upon information provided by third parties. We make no representations or assurances that this information is complete or accurate. Neither Mark S. Gottlieb, CPA, PC nor any of its officers, employees, or representatives make any representation as to the accuracy of completeness of this report or its contents, nor shall any of the foregoing have any liability resulting from the use of the information contained herein or otherwise supplied.

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**TICKET BROKERAGE
&
AN INDUSTRY STUDY**

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Industry Review

Ticket brokers are individuals or firms licensed by a state to resell event and entertainment tickets. This highly fragmented industry consists of roughly 800 to 1,000 U.S. entities, a high percentage of which serve a limited metropolitan or geographic clientele. According to EventTixx2000, a prominent ticket broker, no single firm controls more than 1 percent of the secondary ticket market. Most ticket brokers are small businesses averaging 10 to 15 employees, and reporting annual sales from \$3 to \$4 million.

TicketAmerica, another large ticket broker, estimates that brokerage sales comprise around 10 percent of the primary ticket market. Industry standards see brokers doubling the face value of a ticket price on most sales, thereby making premium events and premium seating highly profitable for brokers. Though estimates fluctuate widely, it is generally agreed that ticket brokers control at least \$3 to \$4 billion of the event ticket marketplace.

Operations

As the size of the U.S. ticketing industry has grown, brokers have dramatically increased profits simply by increasing inventory. A broker typically buys a limited amount of tickets directly from primary sources, e.g. TicketMaster or the venue box office. The majority of tickets originate with individuals, however, many of whom are ticket holders seeking buyers for unused tickets.

Because most first-tier ticketers limit individual transactions, brokers acquire tickets in a variety of ways. According to a report from the Attorney General of New York, Eliot Spitzer's office, sanctioned acquisition methods of brokers include:

- Sending "diggers" to stand on line at the box office
- Using high-speed dialing equipment and other methods to increase the chance of getting through by telephone
- Buying tickets, for a legal premium, from fans who have been able to buy tickets, or from other brokers
- Sending in numerous mail orders for events like Broadway shows, generally in the names of employees or surrogates, such as family members

Upon acquiring tickets, brokers then sell their inventory to individual fans and to corporations. Typically, brokers charge very high rates for premium tickets, or for any ticket to a sold-out event. Industry standards see many tickets selling for twice face value, and selling prices of three times and even four times face value are not uncommon for certain events. The majority of sales, however, see brokers profiting from 10 to 35 percent.

Major expenses of ticket brokers include tracking thousands of events across the country, hiring employees, and purchasing scores of tickets. Brokers inevitably fail to sell every ticket purchased, another cost of business. Though ticket brokers are typically small companies, more than half maintain an online presence. Online ticket sales have not skyrocketed to the extent of primary ticket sales, though, and many online brokers are essentially ecommerce storefronts. Brokers utilize this strategy



because vending outlets are invaluable; for greater visibility, the same tickets are often advertised by multiple online dealers.

Finally, many brokers offer ticket buyers both “guaranteed” and “quoted” prices. In a guaranteed scenario, the broker immediately issues tickets upon receipt of payment, or guarantees to produce them for an agreed-upon price. In this latter scenario, the broker is in fact selling tickets before acquiring them-- a risky, speculative undertaking. Quoted prices help brokers guard against sudden fluctuations, allowing brokers to refund money to customers if the broker cannot find a ticket at the price quoted.

In order to maintain credibility, many brokers apply for membership in the National Association of Ticket Brokers (NATB).

Local Economics

Because ticket brokerage is an almost exclusively local industry, brokers thrive in large, metropolitan areas affording the greatest number of selling opportunities. Toward the end of the 20th century, it was thought that online brokerage would help consolidate the industry, thereby deemphasizing localized trends. However, online brokerage growth has not escalated commensurate to primary ticketing, because most consumers look to auction sites when searching for brokered tickets. The auction format is made available through newspaper, radio and television websites, all offering direct, localized access to tickets.

Government Involvement

Despite occasional rumblings, there are no federal laws imposing restrictions on secondary ticket sales. However, 22 states implement legal price controls, taking on various forms, such as:

- mandating allowable markups on all entertainment tickets (12 states)
- outlawing scalping for particular events (8 states)
- restricting profitable resale to a limited segment of the public (2 states)

New York State has historically set precedent on secondary ticket regulation. In 2001, New York, under recommendations from Attorney General Eliot Spitzer’s office, made it illegal for any person, firm or corporation to resell a ticket for more than \$5.00—or 20 percent—above face value. Resale of tickets was prohibited within 1,000 feet of any place of entertainment having a permanent seating capacity of 5,000 persons, and all ticket brokers were required to be licensed. In 2005, the state reversed tack, somewhat, relaxing resale limits for large venues. This was done in the interest of increasing tax revenues, as brokers were allowed to earn more money. As in most states, the practice of “ice” (insider vending where box office employees channel tickets to brokers and scalpers for a fee) was made a felony in New York in 2001. Illegal ticket acquisition methods in most states include:

- Obtaining unused "house seats" from box office personnel, or seats that are held for performances at which they are released for theatre parties or large groups
- Obtaining seats set aside for promotional or marketing purposes (e.g. special agreements with credit card companies to hold a certain number of "best seats" for gold or platinum card holders)



- Obtaining seats from promoters, performers and venue representatives (including box office treasurers and ticket sellers)
- Obtaining tickets from computer ticketing companies such as Ticketmaster, whose employees skim tickets to sell to brokers
- Obtaining tickets via inside information, such as when additional dates are added for a performance for which there is a great demand and tickets are not immediately advertised

Brokers vs. Scalpers

While many people do not differentiate between ticket brokers and ticket scalpers, important differences exist. Scalpers are essentially unlicensed brokers, and scalping of tickets is almost always illegal. These individuals attempt to profit on tickets by selling to individual consumers, directly outside of venues. Scalpers may also operate at online auction sites such as eBay. The confusion begins when brokers, stuck with “dead” tickets, hire scalpers to hawk surplus inventory on the street. Scalping is generally considered disreputable, and scalpers have been known to vend counterfeit tickets. It is also important to note that brokers do not negotiate the sales prices of tickets; in the case of scalpers, the opposite is true.

Workforce

Ticket brokerage does not require formal education or specialized skills. Ticket brokers come from a broad demographic sampling, and the workforce is not at all unionized. Many brokers work part-time, and commission-based pay scales are common. Some brokers begin their careers under the tutelage of a mentor or small firm, then proceed to find a niche within a local market.

Industry Challenges

Increased Face Value of Tickets — In the concert industry, many popular acts are bypassing large arenas and stadiums and are playing smaller venues with higher ticket prices, regularly in the triple digits. The gross receipts garnered by performers and promoters remain static, but there is less room for markup by a secondary agent.

In sports, a similar trend is quickly evolving as courtside, home-plate and field-level seating has arrived in many facilities with premium-level prices that reflect much of what a secondary market would normally bear. Many arenas and stadiums now have premium seats priced at \$150 and higher per game.

Speculation and Purchasing — Because some events prove popular and others flop, ticket brokerage firms must take care to invest their time and capital in the appropriate manner. Small firms, in particular, may have trouble absorbing the costs associated with “dead” tickets at unsuccessful events. Even the most popular events, such as the Super Bowl, may see consumers reluctant to spend the anticipated sums on tickets, making it difficult for firms to recoup purchasing costs.

Paperless Tickets — The issuance of paperless tickets has been, at most, a minor hurdle for the online component of the ticket brokerage industry. Paperless tickets have affected brokers primarily in that they are difficult to resell in a physical context, making the last-minute outsourcing of extra tickets



to scalpers out of the question. If anything, paperless tickets have encouraged ticket brokers to make more careful estimates regarding purchasing.

Industry Opportunities

Franchise Alliances — As none of the major U.S. sports leagues have defined policies regarding secondary ticketing, brokers in this segment of the industry have begun to sign deals with specific teams. Revenues are split between brokerages and teams at an agreed-upon rate. Such alliances have had the dramatic effect of expanding sales by double- and triple-digit percentages each year, and more competitors of varying size and type have begun to enter the industry. StubHub and RazorGator are large, industry pioneers in this vein. TeamExchange, a subdivision of Ticketmaster dealing exclusively in secondary ticketing, has also proven successful.

Wholesale Ticketing — With the increased popularity and proliferation of online auction sites, wholesalers have emerged. Wholesalers monitor auction sites like eBay, buying tickets ahead of brokers and reselling them. This has given brokers another option for ticket procurement, and expanded revenues in the industry at large, though many brokers argue that it has decreased profits for individual firms.

Industry Outlook

While ticket brokerage has always been a controversial industry, many people feel that brokerage firms provide a valuable service in a free-market economy. A significant portion of those utilizing ticket brokerage services are uninterested in standing on line for tickets, and this generally affluent section of the population should continue to act as a powerful lobby for the industry. With no federal regulation of brokerage firms forthcoming, individual states will likely set the parameters of acceptable practices in ticket brokerage.

The advent of the online marketplace should continue to influence industry practices, and firms will continue to grapple with issues such as advertising methods and costs. Sites such as eBay and craigslist have firmly instated themselves as industry trading floors, and brokers will continue to adapt to the online component of brokerage. Partnerships with individual franchises, such as sports teams and musical performers, seems to be the most promising area of industry growth.





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