



# Inside Ticketmaster's Empire

The ticketing giant wants to rule the concert biz. Should you be afraid?

By Steve Knopper

FOR MORE THAN 25 years, Ticketmaster quietly made billions of dollars by charging fans a fee every time they bought a ticket. But over the last year, the concert giant has made a series of aggressive moves into every corner of the music industry, which could transform everything from how you buy concert tickets to how you buy albums. In 2008 it bought a controlling interest in Irving Azoff's Front Line Management, which represents more than 200 major touring artists, and it is currently trying to win approval for a merger with promoter Live Nation that would create the most powerful company in the music business.

Ticketmaster is the empire that service fees built: In the past five years, it has generated more than \$5 billion in "convenience fees," "order-processing fees" and newer schemes like charging fans \$2.50 to print their own tickets. Pearl Jam, Bruce Springsteen and members of Congress have all taken on Ticketmaster, only to see ticket prices and service fees soar. From its seven-story headquarters in West Hollywood, Ticketmaster sold 141 million tickets to concerts and sports events last year, taking in more than \$1.4 billion. It has exclusive deals with thousands of venues, from clubs to stadiums — which means that any band that wants to play those venues has to sell tickets through Ticketmaster. "Ticketmaster has had a monopoly for so long there's no way around it," says Fall Out Boy manager Bob McLynn. "They do a good job at what they do, but the fees are too high. That's what it comes down to."

Last fall, Ticketmaster acquired control of Irving Azoff's Front Line Management, installing the longtime Eagles manager as the ticketing giant's CEO. Azoff is one of the primary engineers of the pro-



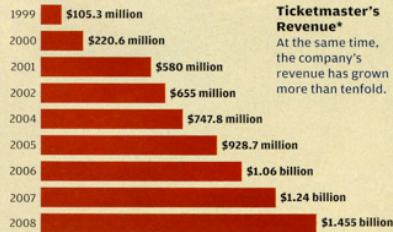
## Ticketmaster's Boom Years

### Average Ticket Price

A decade ago, tickets cost less than half of what they do now.

1998 **\$32.20**      2008 **\$67.33**

COURTESY OF POLLSTAR



### Ticketmaster's Revenue\*

At the same time, the company's revenue has grown more than tenfold.

posal to merge Ticketmaster with Live Nation. If the deal goes through, the new \$2.5 billion megacorporation, Live Nation Entertainment, would sell hundreds of millions of tickets, manage or have long-term deals with a huge roster of top touring artists (including Jimmy Buffett, Madonna and Jay-Z) and control hundreds of venues. "In five years we want to be able to say, 'More people went to shows, and the service fees felt fair, and the scalping industry wasn't pirating all this

hard work,'" says Live Nation CEO Michael Rapino.

Ticket sales in the U.S. have more than tripled over the past 10 years, from \$1.3 billion in 1998 to \$4.2 billion last year, mostly because of rising prices, according to Pollstar. But Azoff and Rapino argue that the concert business is plagued by the same kinds of problems that drove the major record labels into a prolonged slump. Scalpers and brokers take in almost as much money as the artists and promoters who put on con-

certs, 40 percent of seats go unsold — and Azoff and Rapino fear that there's no new generation of arena-size acts to replace bands like U2 and the Rolling Stones when they retire. Live Nation Entertainment, they say, would use its size and clout to reinvent a concert industry Azoff describes as "broken" — and drive down ticket prices and service fees. "You know what this hullabaloo is out there?" Azoff asks. "It's frustration. Everybody looks at the service charge and says, 'Why do I pay \$11.50? Ticketmaster is ripping me off.' . . . But by making the entire concertgoing experience better, we're ultimately going to sell more tickets."

The merger has drawn intense scrutiny to Ticketmaster. Opponents, from Springsteen to Sen. Charles Schumer of New York, say the merged company would be a monopoly — artists who sign to Live Nation Entertainment would have access to unprecedented management, ticket-selling and concert-promoting resources, while those who go with a competitor would be at a disadvantage. "That would be my fear," says Frank Riley, a veteran agent who represents Wilco and Ryan Adams. "If one company owns such a huge portion of the live-music business, they have leverage points — and historically they'll use them."

To trace Ticketmaster's history, its future under Azzoff and what all this means to fans, ROLLING STONE spoke to dozens of the biggest players in the concert industry, including managers, agents, promoters, venue operators and Ticketmaster employees past and present.

## Where the Money Goes

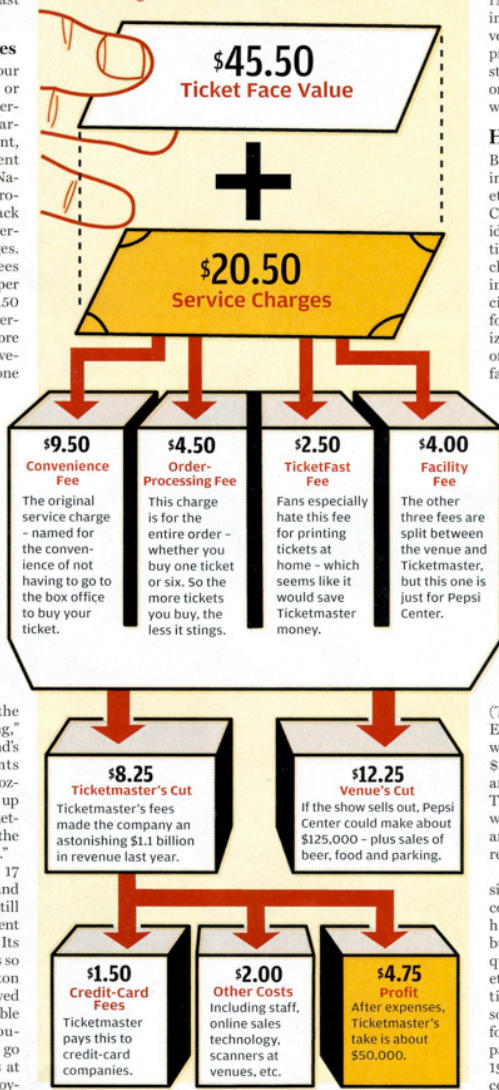
When you buy a ticket to a tour by a major artist like U2 or Madonna, as much as 90 percent of the face value is guaranteed to the artist upfront, which leaves just 10 percent for the promoter. So Live Nation, AEG Live and other promoters make their money back through parking, beer, advertising – and service charges. In 2008, Ticketmaster's fees added roughly 10 percent per ticket, or between about \$2.50 and \$25 per show, at an average cost of about \$7.84 – more than \$1.1 billion in yearly revenue from service charges alone (see sidebar at right).

Generally, whatever the fee is called – “convenience charge,” “processing fee,” etc. – half goes to Ticketmaster and half to the venue or promoter. Smaller artists complain the charges hit them disproportionately hard, because the fees make up a bigger percentage of the total ticket price. Animal Collective charged \$15 per ticket for a June concert in Orlando. But the final cost via ticketmaster.com was \$23.25, with fees making up 37 percent of the total price. “It’s frustrating,” says Tom Windish, the band’s agent, who also represents Peter Bjorn and John and dozens of others. “Last year, I set up 3,000 concerts through Ticketmaster. I never knew what the surcharges were in advance.”

Of Ticketmaster's half, 17 to 25 percent goes to staff and equipment. (The company still has 7,100 outlets in department stores and supermarkets.) Its online ticketing operation is so sophisticated that a skeleton crew of employees – deployed around the country – are able to move hundreds of thousands of tickets when they go on sale Saturday mornings at 10 a.m. (Some of those employ-

## Economics of Ticketmaster

When Green Day play the 13,000-capacity Pepsi Center arena in Denver later this summer, concert-industry sources estimate the band will make \$375,000, minus expenses – or 62.5 percent of the door, with the rest going to promoter Live Nation. Ticketmaster and the venue get paid out of the service charges. Here's how it all breaks down:



ALL FIGURES ARE BASED ON ESTIMATES FROM INDUSTRY SOURCES.

ees are security experts who keep the system going when software “bots” attempt to purchase blocks of seats.) “There’s a thousand different things that go into the operating of a business like Ticketmaster,” former CEO Sean Moriarty told ROLLING STONE in 2007. “It’s the infrastructure that you see at venues, whether it’s scanners, printers, servers or the actual stock the tickets are printed on, or the thousands of agents that work in our call centers.”

## How We Got Here

Before 1982, nobody was making much money selling tickets. But Ticketmaster's then-CEO, Fred Rosen, had a big idea. At the time, the dominant ticketing company, Ticketron, charged about \$2 per ticket in fees. Rosen, a fast-talking, cigar-smoking attorney and former stand-up comic, realized Ticketmaster had superior technology that would allow fans to buy tickets more easily over the phone or at outlets rather than waiting in line all night at the venue's box office. (This is where the phrase “convenience charge” comes from, even though some venues no longer have box offices where you can buy a ticket in advance without fees.)

Ticketmaster's fees generated enough revenue that the company began giving venues a cut in exchange for making Ticketmaster their exclusive vendor. (The Meadowlands Arena, in East Rutherford, New Jersey, went from paying Ticketron \$250,000 to receiving a guaranteed \$500,000 a year from Ticketmaster.) “I saw the public would pay for the convenience, and, of course, they did,” Rosen remembers today.

Ticketmaster signed exclusive deals with many of the top concert venues, and by 1991 it had driven Ticketron out of business and become the unquestioned giant of the ticket industry. Around the same time, average ticket prices soared – more than doubling for the Top 100 tours over the past decade, from \$32.20 in 1998 to \$67.33 last year, according to Pollstar. How did

that happen? It started with the company that is now Live Nation, which in the late 1990s was called SFX. Its owner, media baron Robert Sillerman, bought up local promoters around the U.S.; in an attempt to reduce competition, Sillerman began offering top artists unprecedented deals – as much as 90 percent of the total ticket gross. This was made possible in part by Ticketmaster's service-charge system, which ensured the venues would make money no matter how much of the ticket price artists got. "When service charges went up because acts took most or all of the money from ticket sales," Rosen says, "I took the heat for that."

## Ticketmaster's Future

Azoff has long been one of the music industry's most aggressive moguls. Since taking over Ticketmaster, he's argued vigorously for an overhaul of the concert business that he claims will benefit both fans and artists. "All levels of the live-entertainment food chain need to realize that we're in this together," he says. "We need to keep working on improving the model so fans still want to go to shows." (See sidebar at right.)

But a number of concert-industry sources tell *ROLLING STONE* they're concerned Azoff's plan is a formula for "hiding" the service fees in higher ticket prices – and that fans will end up blaming the artists. "It's camouflage," says Buck Williams, agent for R.E.M. "The tickets are just going to go higher." And, as critics point out, Azoff is partly to blame for ticket prices going up in the first place. In 1994, he and the Eagles broke the \$100 mark for top seats for their "Hell Freezes Over" reunion tour. When a reporter later asked Azoff whether he regretted it, he replied, "We don't give a shit. The Eagles are the biggest American band in history, and that tour and those prices proved it. Listen, this music business is a free-enterprise system."

Azoff's most ambitious plan is the merger of Live Nation and Ticketmaster. They envision a massive, vertically integrated company, Live Nation Entertainment, that would

# Ticketmaster's Vision

The company's CEO, Irving Azoff, says the concert industry needs reinvention. Here is his plan:

Since he became CEO of Ticketmaster late last year, longtime artist manager Irving Azoff has described the concert industry as "broken." Service charges alienate fans, 40 percent of tickets go unsold, and scalping has grown into a multibillion-dollar business. "We need to evolve the industry so fans have a better experience overall," he says. Here are three of Azoff's main ideas.

## All-in Ticketing

Currently, fans are hit with a variety of add-on fees at the end of their purchase transaction with Ticketmaster or other primary ticketing companies. Azoff advocates "all-in ticketing," where the artist, the venue, the promoter and Ticketmaster get paid from the face value of the ticket, with no add-on charges. "The current system needs to change," he says. "There's no reason that the cost for delivering a ticket should be treated any differently than hard show costs like sound and lights, security or backstage catering. We're ultimately going to sell more tickets, and sell them in a way that's more transparent and doesn't make fans clench their teeth – or worse."

profit from every part of the music industry. "We can bundle merchandise or anything you want with tickets – physical CDs or downloads," he says. "And we can put more people in seats, and when you put more people in seats, you can charge less."

The two companies didn't always get along so well. In 2007, Live Nation, whose sales constituted about 17 percent of Ticketmaster's business, announced plans to sever ties with the ticketing giant. The promoter spent much of 2008 setting up its own ticketing operation at livenation.com and signed huge deals to share touring, recording and merchandise revenue with



Azoff

## Ticket Pricing

Scalping has become a multi-billion-dollar business – income that is not going to anyone involved with the production of the show. Azoff's solution is "dynamic pricing": more VIP packages and pricing the best seats closer to their market value in order to make the rest more affordable. "The broker business exists because the industry undervalues the best seats," he says. "More fans would attend shows if a greater number of tickets were more affordable. Airlines and hotels have led the way for dynamic pricing, just as they have with paperless ticketing."

## The Merger

Azoff's biggest idea is merging Ticketmaster with top promoter Live Nation. He believes that the combined company would have enhanced flexibility to lower ticket prices, bring in corporate sponsors and create a new pipeline for breaking acts – for example, by allowing artists to bundle music and merchandise with concert tickets. "This will be the music company of the future," he says. "Everything that can connect artists to their fans and fans to their artists will be the foundation of Live Nation Entertainment."

Madonna, Jay-Z, Shakira and Nickelback.

In response, Ticketmaster chairman Barry Diller acquired a controlling interest in Azoff's company, Front Line, giving the veteran manager 4.5 percent of Ticketmaster shares and installing him as CEO. Shortly after Azoff took over the company, Live Nation's Rapino called with congratulations – beginning the conversation that led to the merger proposal in early February. Together, they argued that the new company, which still faces Department of Justice approval due to antitrust concerns, could immediately save \$40 million by eliminating "inefficiencies." And they claim Live

Nation Entertainment would be able to lure more corporate sponsorship. "There's going to be an incredible credibility to go to American Express or Coca-Cola and say, 'Invest the money in this process with this artist,'" Azoff says.

But a growing chorus of critics worry that bands not managed by the company, or that choose to tour with a different promoter, would be at a huge disadvantage. "It probably has a detrimental effect on pricing to the fans and the amount of revenue that ultimately goes to the artists," says David T. Vieceili, agent for Arcade Fire, Nick Cave and others.

## Scalping

Over the past 10 years, the market for scalped tickets has grown into a multibillion-dollar business, thanks to websites such as StubHub and Ticketmaster's own TicketsNow. Tickets enter the secondary market in a variety of ways: Brokers use software to get around Ticketmaster's security and buy blocks of seats, individual fans sell their tickets, and many of the best seats are sold by insiders. "[Azoff and Rapino] know the secondary market is the [monetary] equivalent of the primary market," says a concert-business source. "That is a huge driver."

In addition to "dynamic pricing," Azoff is offering artists paperless ticketing, which requires fans to show ID to get into a concert. The technology was first rolled out on Tom Waits' tour last summer, then for about 3,000 tickets to every AC/DC show in the fall. Miley Cyrus' fall tour is an example of both ideas: paperless ticketing for all the seats and selling VIP packages – which include prime seats, a pre-show party and parking – for \$295.

But critics point out that Azoff doesn't exactly have a reputation for caring about fans. "Irving's the smartest person in the music business – and the most powerful," says Rosen, the former Ticketmaster CEO. "He's done so many extractions [of other people's money], he's getting an award as Man of the Year from the American Dental Association. It's easy for Irving to call for more transparency, because he just got there." ☛