

Chapter 2. Sporting Chances

When businesses (mostly sporting) routinely give away prizes cheaply:

'Someone said 'Football is more important than life and death to you' and I said 'Listen, it's more important than that'.^{}*

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2.1 Example of a random distribution: Wimbledon tickets

In this example, a commercial sports organisation chooses to distribute its wares to the public by means of a lottery. Sport and the use of random devices are firmly linked in the public's mind: It is usual to start a football match with the toss of a coin to decide who plays in which direction. In knock-out competitions, it is usual to draw names from a bag to decide who plays whom in the next round. I have come across a number of examples where tickets to sporting events are rationed out, not by price, but by a lottery. The annual Wimbledon tennis Championships distributes a large proportion of the tickets by 'ballot' (lottery). Wimbledon prides itself on opening up access to the general public, although not eschewing insider-outsider discrimination entirely.

Details of the Wimbledon tennis championships ballot follow in the boxed section:

^{*} said by Bill Shankly, Manager, Liverpool F.C. during an interview on a [Granada Television](#) chat-show hosted by Shelley Rohde in [1981](#), which produced arguably Shankly's most famous (and most often misquoted) quote.

Example: How the Wimbledon Championships ticket ballot is organised:

From www.wimbledon.org 'The official website of the All-England Lawn Tennis and Croquet Club' (AELTC) accessed on 20th Oct 2004

'Demand for Wimbledon tickets has for decades exceeded supply. As long ago as 1924 the Club introduced a public ballot whereby a number of Centre, No.1 and No.2 Court tickets are sold in advance. Many tickets are also sold through The Lawn Tennis Association to their affiliated tennis clubs, schools, membership scheme and to foreign tennis associations.

Wimbledon remains one of the very few major UK sporting events for which one can still buy (a small number of) premium tickets on the day. [...] Ground tickets may also be purchased on the day of play on every day of The Championships, although visitors may have to queue for tickets. The AELTC Public Ballot has always been substantially oversubscribed, with the main proportion of Centre and No.1 Court tickets being available in this way

Re-Sale of Tickets Tickets with the word 'Debenture' printed on them in place of the price can be legally transferred or sold on. **All other tickets are strictly non-transferable and must not be sold nor advertised for sale whether on the Internet, in newspapers or elsewhere.** (*AELTC emphasis*)

The Public Ballot: Applying for the Ballot does not automatically entitle applicants to tickets for Wimbledon, but a place in the draw for tickets. Tickets are allocated at random to successful applicants by computer. Furthermore, it is not possible to request tickets for specific days or courts, as the day and court offered are also chosen randomly by a computerised selection process.

The 2005 Public Ballot: To obtain an application form, please send a self-addressed envelope to the address below from 1 August 2004 but **before** 15 December 2004. Requests for forms postmarked after 15 December will not be processed. [...] Completed forms must be returned to The Ticket Office before 31 December 2004. Applications postmarked after this date will not be included in the ballot. (*Comment: no up-front payment is required at this*

Successful Applications and Paying for Tickets: The draw will be made in January 2005 and successful applicants will be informed from February 2005. If you have not heard from us by March 2005, please assume that your application was not successful in the main ballot. However, as declined and returned tickets are re-balloted up to the day of play, we may be able to offer you tickets at a later stage.'

2.2 Commentary on the Wimbledon Championships ticket ballot:

(information used here is taken from the official website of the All-England Lawn Tennis and Croquet Club – AELTC at www.wimbledon.org accessed on 1 May 2005. Other sources as indicated)

The ‘ballot’, as the AELTC describe the random distribution of tickets to some applicants, has been in use since 1924. Not all tickets are allocated in this way—there are debenture-holders, corporate tickets, and a proportion reserved for players, tennis clubs and the media. It is also possible to queue up and buy some tickets on the day. That still reserves a sizeable proportion of tickets which are only available by ballot to the general public. The website is not specific about this number, but it seems that about 30% of all tickets, especially the most desirable ones, are distributed by ballot. Total gate attendance at the Championships in 2004 was around 450,000, so about 135,000 tickets were awarded randomly. Applications for tickets through the ballot is described as ‘heavily over-subscribed’, by about six times (according to the Wimbledon Press Office spokesman, Johnny Perkins, in a conversation on 4.5.05). This means that there are about half a million people who choose to take part in the Wimbledon ticket ballot.

If a process of random distribution has been in operation for more than 80 years, and annually involves so many people, then the management of the AELTC must consider that it works well, and fulfils their objectives. During this time they have had ample opportunity to consider alternatives. If their customers had found this an unsatisfactory procedure, they too have had plenty of time to communicate their complaint. Distributing the opportunity to buy tickets for Wimbledon by ballot has stood the test of time.

During these 80 years, the AELTC has had to adapt to major changes. In the early days, it was a straightforward sporting club, dealing with relatively modest numbers of spectators. In the post-war era, numbers of spectators increased, and the game became more commercial, with professional players competing for large prizes. The AELTC resisted the professionalisation of tennis, but eventually in 1968 gave in to commercial pressures. Major money prizes are now on offer to attract the top players worldwide. In 2004 the prize fund stood at £9.7 mn, which would require an average

of about £20 from each paying customer. In 1920 the AELTC devolved responsibility for the commercial organisation of the grounds to a Limited Company (later a plc). Although many of the trappings of a traditional English club still cling to Wimbledon, it is clearly a fully-fledged commercial organisation, intent on making money to cover its running costs, pay out prizes, and to produce net funds which are paid over to the Lawn Tennis Association, to promote the game. In 2003 these funds amounted to £25.9 mn. If more funds could be generated, then the LTA could achieve more.

It thus seems odd that an essentially commercial organisation deliberately chooses to forego additional revenue by selling its product via a ballot at below market price. If a ballot is to work, then the price charged has to be less than the open market price, otherwise there would be no excess of applicants. What explanations can be given for this seemingly irrational non-profit seeking behaviour by the management of the AELTC?

‘We have often been asked the question: ‘Why a ballot, why not just put up the seat prices’ according to Johnny Perkins, the Wimbledon Press Officer with whom I spoke. ‘We want to keep Wimbledon accessible to the ordinary fans. Putting up prices would not be popular. Although we could sell each ticket many times over, raising prices would be bad for our image, and not good P.R. The ballot is still regarded as the fairest way to distribute tickets. It ensures that there is access for genuine tennis and Wimbledon fans’

This is the publicly stated view of the AELTC, but behind the avowed public image, there may be a more significant rationale, which I will try to explore. Some of the reasons why the management might chose to avoid higher seat-prices, and deal with the excess demand through a ballot might include:

The fans are not price-sensitive: It would be wrong to charge them exorbitant market prices. The suggestion that sports’ fans will pay any price to see their heroes seems to be borne out by the huge prices charged at Premiership football venues. But an example of price resistance by sporting fans was to be found in rugby-mad Wales: On 6th November 2004, the Millennium Stadium Cardiff played to many empty seats for a major game: Wales v. South Africa, because the ticket prices had been raised to

such a high level. So even sports fans are price-sensitive ‘rational economic men’ after all.

The amount of revenue lost by the ballot is trivial, so best to leave a settled arrangement in place: The amount of revenue lost by using ballot not trivial. As a rough calculation, I reckon that there is a loss of at least £1.5 mn. (This is based on some heroic assumptions, such as: tickets could be sold on the market for at least 30% more than current prices. I have ignored the additional costs of running the ballot). Compared to the surplus funds of £24.9 mn already generated, £1.5 mn is a significant addition. The management of AELTC would seem to be either apathetic or ignorant to deprive tennis development of this large additional source of revenue.

The ballot is a clever way of promoting the product: There may be some merit in the ballot-as-marketing-tool idea, but it seems tenuous. For instance it could be said that:

- the ballot creates advance interest in the Championships. This is unlikely, since there is already massive publicity from TV and newspapers.
- the ballot enables the management to spread attendances away from the popular Finals days. It is true that theatres and circuses hand out free tickets for performances early in the week, to generate interest, but Wimbledon hardly needs such tactics.
- the ballot ensures that the stands are filled with a range of people of varying ages and socio-economic status. This means that the TV audience, which generates the bulk of the revenues, can better relate to a crowd which is not mostly rich and old.

The Wimbledon ballot creates a minor barrier for applicants, and the tickets awarded are meant to be non-transferable: this ought to screen out those non-fans who simply enter the ballot to make a quick profit. Judging from the amount of space devoted by the Wimbledon website to ‘anti-tout’ warnings, leakage of tickets onto the black market is a major problem. For the management of Wimbledon, the continued use of random distribution for a large proportion of the tickets seems to be acceptable if somewhat quixotic.

But what might explain the acquiescence of their customers, who enter the ballot and buy the tickets? What do they get from this arrangement?

Something for nothing: The entry costs are minimal—just the price of two postage stamps, and the payoff is substantial—tickets to a major sporting event at below market price. The only snag is that you are not supposed to sell your prize on; it is for your use only, although it might not be too difficult to get around that particular hurdle. This reduces the value of the prize to non-tennis fans as the AELTC intends, but it still looks like a very good gamble.

It's trivial—it's only sport after all, and anyway it's fun to enter a lottery: This suggests a strange compartmentalisation in the minds of consumers: Purchasing the weekly groceries is serious stuff, involving weighing up of alternatives, maximising pay-offs. Sport, on the other hand, is frivolous, so irrationality can be tolerated. Nevertheless, such 'framing' effects have been found (Kahneman, 2003) .

2.3 Theory of Rent-seeking and Sporting Chances

I return to Public Choice Theory and the insight it gives on 'rent seeking'. In Boyce's 1994 paper on 'Allocation of goods by lottery' he considers the rent-seeking aspects of distributing hunting licences by lottery in the US. Permits to hunt deer, moose, bear, buffalo, alligators and many other animals in the wild are distributed via a lottery. Although the agencies handing out the licences are usually public bodies, this is essentially a commercial activity. Hunting and killing wild animals is for sporting reasons, not as a livelihood, and the applicants are receiving a permit to exploit public lands. Despite any fee charged there is still excess demand, which leads to the need for a lottery or some other demand-curbing mechanism.

Boyce's approach is to assume that applicants for a benefit which is in limited supply have preferences that are 'consistent with purely self-interested behavior'—in other words are assumed to act like textbook consumers, having a rational fixed set of preferences, unaffected by what others may receive. One obvious choice is to 'rent-seek'—look for bargains, to get something below market price. Entering the

Wimbledon ticket ballot is a good example of rent-seeking; entrants hope to gain a prize at below market price. Boyce examines lotteries where recipients may or may not trade after allocation. Post-allocation trading increases the value of the prize, which in turn may attract more entrants, which in turn lessens the chance of winning. The effect of imposing entry fees is also considered. These are compared to auctions, merit selection and queuing, all of which impose different costs on applicants. These costs reduce the value of any prize that might be gained and are a kind of negative rent—a payment or cost which has to be made up-front, without any guarantee of winning the prize. Those seeking prizes have to balance the rent they seek (the value of the prize) against the rent that has to be dissipated and decide whether the prize is worth the sacrifice. With analysis, Boyce is able to show that applicants should prefer a lottery over other methods because the benefit is won more cheaply.

There is also form of rent-dissipation which may occur due to bad husbandry. The gamekeepers may feel that permits that are distributed by lottery are of little value. This leads to a disregard for the habitat of the lottery-hunted animals. Because lottery permits generate less revenue than full-market pricing, there is less resource available. The revenues can be very large: Not all states distribute hunting licences via a lottery. For example, in a 1998 auction for a single Calgary bighorn sheep hunting permit, the winning bidder paid \$405,000 US. (Evans & Flores, 2001). This cuts both ways: If such a valuable benefit were distributed cheaply by a lottery could raise the welfare of hunters rich and poor. Alternatively, if sold to the highest bidder, the revenue generated could develop more extensive habitat to enable many more hunters to kill something less exotic at less cost. A compromise solution has been achieved in Maine, where 1,400 moose hunting permits were available in 1995. Five of these were auctioned, with 124 bidders making a mean bid of \$1956. The remaining 1,395 permits were distributed by lottery among 70,000 applicants. The benefits of this according to Evans & Flores are, firstly, that the administrators can gain some idea of the total benefit which they are distributing. More importantly, given the egalitarian motivation of the curators of public lands, is that benefits are distributed widely at little cost to the recipients, while at the same time extracting revenue from those who can clearly afford it. Fix & Loomis (1998) explain how administrators can discover

the price users might be prepared to pay for access to public resources, using the ‘revealed preference’ technique.

Kerr (1995) considers a similar set of questions relating to hunting permits as Boyce. Kerr notes that ‘the price allocation mechanism has long been championed by economists’ for these situations because it is (theoretically) efficient. Nevertheless, publicly owned assets are widely distributed for free in the United States and sometimes in New Zealand, because lotteries ‘have been touted as the fairest method’. The managers of these public assets are assumed to have the objective of the most socially desirable outcome, according to Kerr. Lottery has the benefit of transferring the maximum benefit to the customers who pay nothing for their prizes (apart from time spent rent-seeking). But compared to charging full price, these lotteries take more effort and impose more cost on the organization. Pricing is invariably better for efficiency, but using a lottery is more ‘fair’. Although Kerr alludes to fairness many times, he does not expand on what is meant by this, other than a reference which says that using a lottery is ‘eminently fair’. Later in (Chapter 7) I will return to the vexed question of ‘fairness’, and try to explain what value customers or recipients of lottery prizes might place on it.

2.4 Is a lottery better than queuing?

Excess demand, when not dealt with by the price mechanism, leads to some form of rationing. Since the main alternative to rationing by lottery is rationing by queuing, it is worthwhile comparing the two. Wimbledon, of course, uses both: As well as tickets which are pre-sold through the ballot, it is proud that a sizeable proportion are still available for purchase on the day of play. This results in queues, sometimes overnight on the streets outside. Football final tickets are also sold on a first-come-first-served basis which leads to queuing. Many entertainment venues print tickets with prices long before the event. They may have a policy of standard pricing irrespective of the anticipated demand. Again queues may form. Given the dilemma that they have

created for themselves by fixed-price ticketing, which is the better way to manage the excess demand: queues or random distribution?

Taylor, Tsui and Zhu (TTZ)(2003) compare distribution by lottery with queuing. Their criterion for judging which allocation mechanism is better is based on the amount of *rent dissipation*—wasted effort, that is caused to the applicants. Assuming that the applicants wish to minimise this wasted effort, TTZ conclude that lottery allocation generally predominates over queuing when the goods allocated are fairly homogenous, and consumers' tastes are fairly similar. They arrive at this conclusion using analysis and simulations. They agree with Boyce that post-allocation trading encourages more applications, which dissipates more rent and reduces the value of the prizes.

2.5 Conclusion

Boyce (1994) reports that there is a consistently negative reaction by members of the public to hypothetical questions involving Random Distribution—the public think that using lotteries to decide would be *unfair* (Khaneman et al, 1986a is one of his sources for this result). But paradoxically, when it comes to sports, and the actual use of lotteries, the public do not seem to mind, as the example of Wimbledon shows. Neither does the random distribution of hunting licences or of tickets for sporting events spark off customer resistance. There is clearly a divergence between the answers elicited by hypothetical questions about random distribution, and peoples' reaction to actual distributions involving lotteries. Perhaps when it comes to 'trivial' things like sporting tickets or licences, a lottery is part of the game?

Superficially it would seem irrational for a commercial sports firm to use random distribution. It can only work if their product is sold at below market price, thus creating excess demand. The economists' solution, staple of first-year economics lectures, is to raise prices to equate supply and demand. All moralistic talk of the

wickedness of touts and black markets would vanish, we assure our students. But that ignores the marketing needs of commercial football teams, and other sporting businesses that need to cultivate an on-going relationship with their fan base. Perhaps Wimbledon tennis management are rational after all, taking a long-term view of their business.

Consideration of what would be the most beneficial distribution method from the point of view of the consumer is welcome. This was presented as an aspect of Welfare by Boyce, and is a useful reminder that the economy exists ultimately for the benefit of people. The automatic assumption that queuing is the right way to deal with unanticipated excess demand is not always valid. A randomisation mechanism can serve the interests of consumers as well. Elicited answers to hypothetical questions seem to show that lottery distribution is unpopular. However, when it is used in a sporting context it is accepted easily.

