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The Orchestra Business Model – that's no way to run a business!

> *"The permanent orchestra season has, as usual, been financially a bad one all over the country. There is always a deficit, which public-spirited guarantors are called up to pay year after year. A permanent orchestra…is not at present a paying institution, and is not likely immediately to become so… Nevertheless, the prevailing note of the guarantors of the American Orchestras is one of hopefulness. Things are coming on; the public is being educated; it will support the orchestras in larger and larger numbers till they become finally…self-supporting."*

If there is one lesson to be drawn from this quote from a *New York Times* article, in a review of the financial results of the 1902-03 concert season in the USA, it is that it was ever thus. The orchestra 'business model' remains a mystery to those who work outside our industry, and it is frequently the case that successful business people join the boards of our members and are surprised to discover we operate within the basic principle that every concert or performance loses money. "That's no why to run a business!" they cry. But finding an alternative is easier said than done.

In their influential study, William Baumol and and William Bowen (1966) identified "cost disease" as the root of persistent operating deficits in the performing arts and other activities with comparatively low productivity growth. In short, commercial businesses increase their profitability through productivity gains. But a symphony requires a fixed number of musicians. There is no more 'efficient' way of doing it, whatever the famous joke about finding 'efficiency savings' in Schubert's Unfinished Symphony (see Efficiency in Art: The Failure of Logic).

The problem of persistent deficits is a consequence of wage inflation. As salaries across the public and private sectors go up, so do they in the not-for-profit sector, and this is exacerbated in our orchestras due to their reliance on a trained and highly skilled workforce, where the musician's expertise carries a premium. But an orchestra's sources of income have to struggle to match increases in labour costs. These sources are:

- Earned income, including ticket sales, commercial hires and recordings
- Contributed income, including sponsorship and donations
- Public subsidy, from government, Arts Councils and local authorities

All three must in combination rise by the same percentage as labour costs, to avoid "cost disease" and a slide into deficit.

In relation to earned income, ticket pricing is market-sensitive, and charging to the customer 100% of the cost of putting on a concert would make the tickets too expensive and lead to plummeting sales. Data from our members show earnings generated 48% of income in 2012/13, making it the largest source of revenue (unlike many of our continental competitors, where orchestras can be subsidised to up to 85% of their income). And a paradox revealed in the Association of British Orchestra's (ABO) latest survey of its members, *The State of Britain's Orchestras* in 2013, is that while audiences increased by 16% between 2009/10 and 2012/13, earned income declined by 11% in real terms. The likely causes are the downward pressure on ticket prices resulting from the squeeze on our customers' personal spending power, and our members' success in widening access through student offers and free concerts.

Contributed income has shown encouraging growth over the past few years, particularly in the area of individual giving (corporate sponsorship has been in decline). However, it remains the smallest source of income, at 18%, so increases generated by recent government initiatives have led to only a marginal increase in overall income, much of it restricted to capital campaigns, education projects and endowments, thereby not off-setting cuts in public subsidy. It is also worth pointing out that the crisis in American orchestras, where there have been closures, strikes and lock-outs, has been precipitated by an over-reliance on individual giving and in particular endowments, which lost both value and yield in the 2008 crash and have yet to recover. We do have to raise a wry smile when politicians exhort us to learn from America.

Public subsidy, at 34% of income, remains absolutely crucial to the survival of British orchestras, opera and ballet companies. Not surprisingly this has been decreasing over the past few years, and our members have had to accept their share of the pain and find ways of cutting costs and freezing pay to avoid slipping into deficit. But there will be a limit to just how far the musicians can weather the continued flat-lining of their pay, when the cost of living continues to go up. There is every possibility they will start to take their skills and experience elsewhere.

British orchestras operate in a global marketplace. We are in competition with orchestras in other countries, where there are higher levels of subsidy and an understanding by the state that orchestras are intrinsic to their national and international identity, and subsidy needs to match increases in labour costs. Our competitors are also often subsidised to tour abroad, whereas, except in Scotland where there is an international touring fund, our members are expected to tour on a purely commercial basis, putting them at a disadvantage.

With the odds stacked against us, and with "cost disease" intrinsic to our business model, the obvious question is, "is there another way?" Well, in many ways that question was answered in 1904, by the creation of the London Symphony Orchestra as a "self-governing" orchestra, in which the musicians own their own orchestra and employ their own management to get them work. And other orchestras, particularly in the chamber orchestra sector, have pursued an even more flexible model, engaging self-employed musicians concert by concert, avoiding the additional labour costs of the permanent salaried model.

But not even these more flexible models avoid the paradox of “cost disease”. It still costs more in labour costs to put on a concert than can be recouped in ticket sales, leading to a continued need for subsidy and contributed income to plug the gap.

So the question remains as to whether there is a genuinely new “business model” that could be the salvation of the contemporary orchestra. Some politicians have latched on to new technology as a possible answer, suggesting that initiatives such as live streaming could provide an additional source of revenue, while simultaneously demanding that arts organisations give content away for free. Experiments in this area have clearly shown that new technology offers a fantastic opportunity to extend reach and engage with new audiences, but has limited application as an income generator, especially in an age when young people and the millennial generation expect web content to be free.

Orchestras in the USA and the UK have for the past few years begun to re-assess their vision and mission, and grasp that the premise for their existence must start with what they can offer society and their communities. Orchestras are no longer just about great music on the concert platform, but understand the need to be a community resource, an active educator, and a partner in the supply of public services. Working with the health sector and Higher Education, and engaging with local authorities’ drive towards ‘strategic commissioning’ (first brought to the attention of our members at the ABO Conference in 2011), is a vital step in a genuine re-envisioning and re-positioning of the 21st century orchestra.

And the musicians themselves are part of this re-envisioning. The musician of the future is likely to need to adapt to these new models and to offer their artistry and expertise in new contexts and to new and diverse audiences beyond the concert hall. It is this partnership working that is key to the survival of the orchestra for both management and musician alike.

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