MANAGEMENT IN ACTION:

Industry Analysis of

The Sydney Symphony Orchestra

Robert Marks
Economic Issues

- The SSO’s objectives.
- Definition of the SSO’s market.
- Demand & supply in the market.
- Externalities
- Baumol’s cost disease.
The Sydney Symphony Credo

Creativity, Innovation & Excellence —

“The Sydney Symphony recognises the spiritual power of music and is dedicated to the performance of orchestral music.

The orchestra draws its substance from the engagement between audiences and musicians at performances where artistic excellence, the promotion of innovation and the encouragement of creativity transcend ordinary and everyday human experience.

We strive to earn and promote the Sydney Symphony’s status as an Australian icon and to build our international reputation for excellence.”
Profit Maximisation?

• We usually assume that firms strive to maximise their profits.
• Is this consistent with the SSO’s Credo?
• If the SSO’s goal is not profit maximisation, then how is their decision making different?
What’s the SSO’s market?

Who are their competitors?
• The Australian Chamber Orchestra?
• Opera Australia?
• The Sydney Dance Company?
• Movies? Theatre?
• Radio? TV? CDs? DVDs?
• The Sydney Swans?
• The Bledisloe Cup?
Demand and Supply

What influences demand?
• See Simon Sheather’s stats.
• Rivals.
• The strategic behaviour of competitors.

What determines the SSO’s costs?
• Salaries (57% of SSO expenses in 2002 were orchestral salaries and guest artist fees etc., up from 55% in 2001; and 16% of SSO expenses in 2002 were other employee salaries, the same as 2001).
• How difficult is it to reduce costs?
Price Discrimination

- Are all tickets the same price?
- Are two-part tariffs used?
- Is bundling used?
- How are patrons segmented?
The SSO’s Substitutors

Rivals/competitors (*Substitutors*):

- Alternative entertainment suppliers.
- Alternative arts suppliers.
- Alternative employers of musicians (here and abroad).
The SSO’s Complementors

Complementing organisations (*Complementors*):

- The Sydney Opera House, and other venues.
- NSW Ministry for the Arts, Australia Council
- Sydney Conservatorium of Music
- QANTAS
Who Should Fund the SSO?

- In 2002, over 58% of SSO revenue came from government grants, corporate sponsorship, and donations.
- What makes the SSO different from any other entertainment provider?
- Why should the government sponsor the arts?
In 2002, the Sydney Symphony's total income amounted to $22.677 million. Expenses for the year amounted to $22.657 million. The net result of activities resulted in a surplus of $19,182.
Government Funding

- In 1999–2000, government funding provided cultural organisations with $3,977.7m, or $208.82 per person.
- The Commonwealth provided 35.9%, State and Territory governments 43.6%, and local governments 20.5%.
Multiplier Effects 1

The multiplier effect is the additional amount of (aggregate) demand created by each additional dollar expenditure (by the government).

- Multipliers can be calculated for government expenditure, for employment, for investment.
- Expenditures on the SSO generate demand for CDs, books, meals, parking, transport, clothes, and other related products.
Multiplier Effects 2

<table>
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<tr>
<th>Gross value added multiplier</th>
<th>FTE employment multiplier</th>
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<td>Music &amp; theatre productions.</td>
<td>1.79</td>
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- If the government spends $1 million on the SSO, the multipliers tell us that $1.79 million will be generated in demand (GDP), and 34 new jobs created.
Supporting the SSO: Lending Your Support

“The Sydney Symphony is irrevocably linked with the ongoing well-being and richness of Australia’s cultural life. While celebrated as a leader in the performance of Symphonic music, many of our supporters are unaware of other activities in which the Orchestra participates; activities that seek to extend and redefine the ways in which music enriches our community.

There are a number of different ways that you can contribute to the orchestra. and donations by individuals are all tax deductible. Sydney Symphony donors are acknowledged in concert programs.”
Baumol’s Cost Disease

Without growth in productivity (or labour-saving innovation), orchestral music will tend to rise in cost persistently, and at a rate above the inflation rate.

Other sectors (car manufacturing) experience productivity growth of about 3% per year, so cars get cheaper relative to concert going.

Affects many labour-intensive high-skill activities (opera, theatre, etc.).
Curing Baumol’s Cost Disease?

Control costs by using fewer professional musicians? Not desirable.

Leverage each performance with concerts and recordings?

Larger venues? Acoustical limits.

Offset it with larger endowments and government support?

Or greater perceived value supporting higher ticket prices?
Questions for the IP:

1. What are the SSO’s objectives?
2. How do you define the markets in which the SSO sells and buys?
3. What are the demand and supply conditions in these markets?
4. Why should tax-payers fund the SSO?
5. How to avoid or reduce Baumol’s cost disease in the long run?