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.
- Funding: The Strong Report
- 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 from 2004.
- Rivals.
- The strategic behaviour of competitors.

What determines the SSO’s costs?
- Salaries (54% of SSO expenses in 2003 were orchestral salaries and guest artist fees etc., and 13% were other employees’ salaries).
- 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
# 2003 Income and Expenses

In 2003 the Sydney Symphony’s total income amounted to $24.842 million. Expenses for the year amounted to $24.249 million. The net result of activities resulted in a surplus of $593,000 (2%).

<table>
<thead>
<tr>
<th>Income 2003</th>
<th>Expenditure 2003</th>
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<tbody>
<tr>
<td>Government funding</td>
<td>Orchestral salaries</td>
</tr>
<tr>
<td>46%</td>
<td>39%</td>
</tr>
<tr>
<td>Ticket sales</td>
<td>Administrative expenses</td>
</tr>
<tr>
<td>39%</td>
<td>22%</td>
</tr>
<tr>
<td>Sponsorship &amp; donations</td>
<td>Guest artist fees</td>
</tr>
<tr>
<td>9%</td>
<td>15%</td>
</tr>
<tr>
<td>Hire fees</td>
<td>Venue &amp; production costs</td>
</tr>
<tr>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Interest income</td>
<td>Marketing</td>
</tr>
<tr>
<td>2%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Who Should Fund the SSO?

- In 2003, over 55% of SSO revenues came from government grants, corporate sponsorship, and donations.
  In 2003, 43% of SSO revenues came from box office and hire fees.
- What makes the SSO different from any other entertainment provider?
- Why should the government sponsor the arts?
Government Funding

The Strong Report, 2005:

• in 2003, government funding provided the eight Australian orchestras $57.389 million, about 61% of their income.

• The Commonwealth provided 47%; State and Territory governments provided 13%; and local government provided 1%.

• Box office provided about 28%.

• Private sector sponsorships and donations was about 9%.
Multiplier Effects

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.
- Earlier research suggests a GDP multiplier of 1.79 for music & theatre productions, and an employment multiplier of 34/$1 m.
Effective marketing is essential if orchestras are to meet their box office targets and promote their services in the community. Orchestras have increased their marketing efforts significantly in recent years, and total expenditure on marketing and promotion reached some $7.2 million nationally in 2003. The key objectives of the orchestras’ marketing strategies are to achieve growth in ticket sales, to attract sponsorship from the corporate sector and to encourage private donations.

CHART 2.9: ORCHESTRAL COSTS BY CATEGORY OF EXPENDITURE, 2003 (%)
The different priorities attached to marketing across the various orchestras reflect differences both in marketplace conditions and in the corporate strategies adopted by their governing boards. The West Australian orchestra, in particular, has increased its marketing expenditure significantly over the past three years, and has secured healthy increases in its box office income.

19 Includes expenditure on sponsorship development and servicing.
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, lecturing, etc.).

Blame Beethoven!
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?