

# **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%).**

### *Income 2003*

<b>Government funding</b>	<b>46%</b>
<b>Ticket sales</b>	<b>39%</b>
<b>Sponsorship &amp; donations</b>	<b>9%</b>
<b>Hire fees</b>	<b>4%</b>
<b>Interest income</b>	<b>2%</b>

### *Expenditure 2003*

<b>Orchestral salaries</b>	<b>39%</b>
<b>Administrative expenses</b>	<b>22%</b>
<b>Guest artist fees</b>	<b>15%</b>
<b>Venue &amp; production costs</b>	<b>11%</b>
<b>Marketing</b>	<b>11%</b>

## 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:

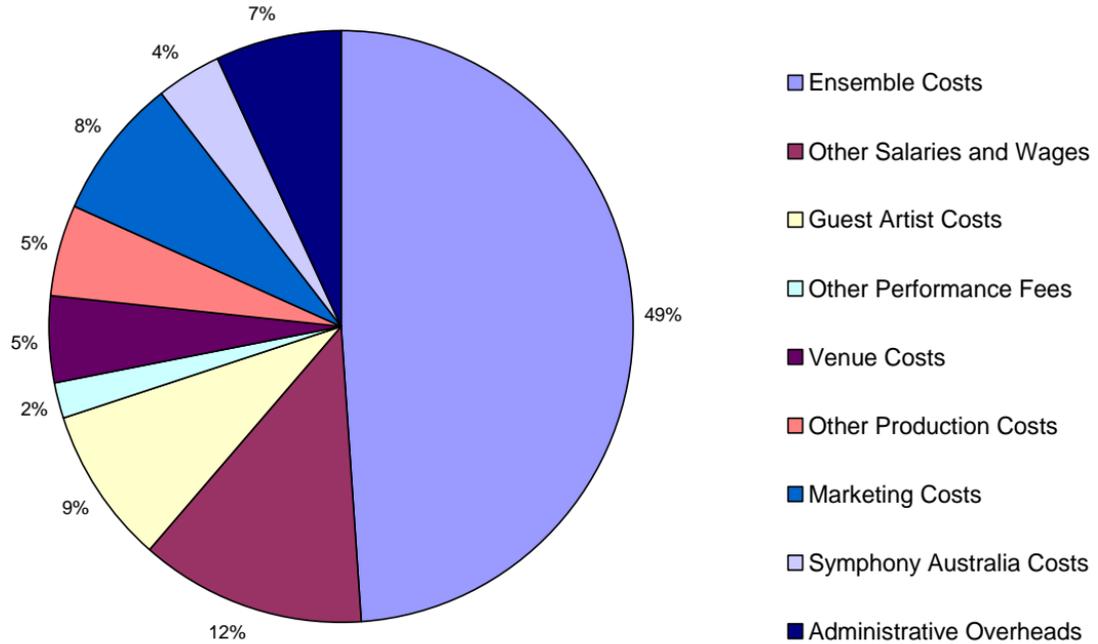
- in 2003, government funding provided the eight Australian orchestras \$57.389 million, about 61% of their income.
- The Commonwealth provided 47%; State and Territory governments provided 13%; and local government provided 1%.
- Box office provided about 28%.
- Private sector sponsorships and donations was about 9%.

## Multiplier Effects

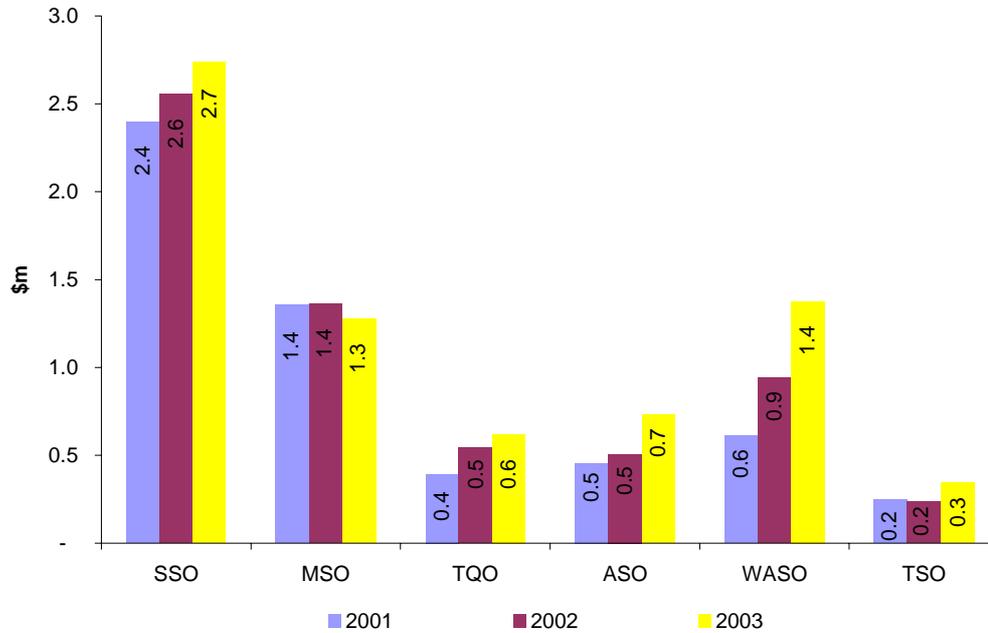
**The multiplier effect is the additional amount of (aggregate) demand created by each additional dollar expenditure (by the government).**

- **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.**

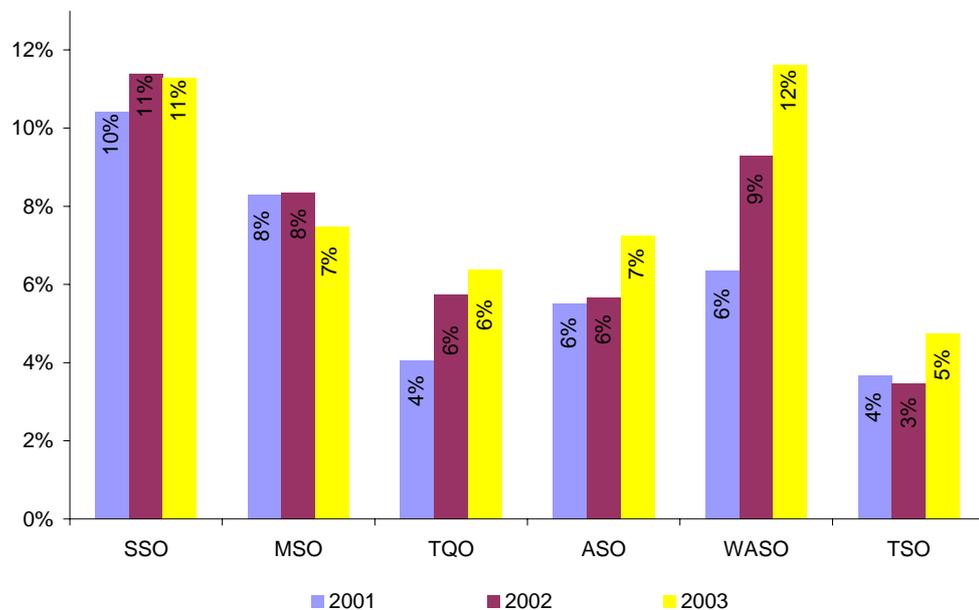
**CHART 2.9: ORCHESTRAL COSTS BY CATEGORY OF EXPENDITURE, 2003 (%)**



**CHART 2.12: TOTAL MARKETING EXPENDITURE, 2001–2003<sup>19</sup>**



**CHART 2.13: TOTAL MARKETING EXPENDITURE AS A PERCENTAGE OF TOTAL EXPENDITURE, 2001–2003**



## **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?**