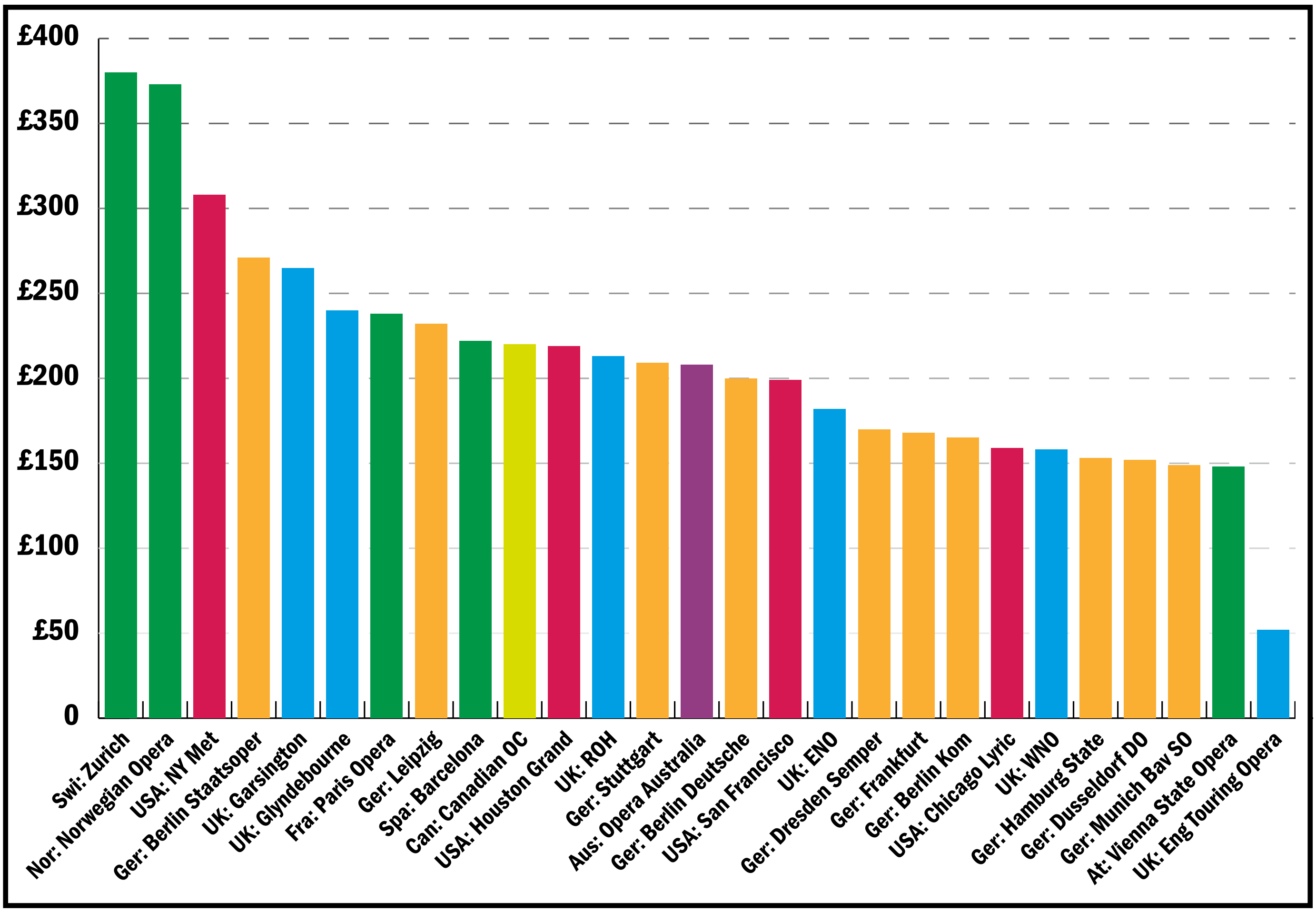
ECONOMIC EAR
Costing the musical audience

In this month's article on the business of classical music, **Antony Feeny** continues the narrative about operatic business performance indicators

Last month's Economic Ear dipped its lobe rather tentatively into the world of musical business indicators. It focused on one particular Key Performance Indicator (KPI), namely the average cost per performance of some of the leading opera companies in the UK, US, Germany, France and Norway.

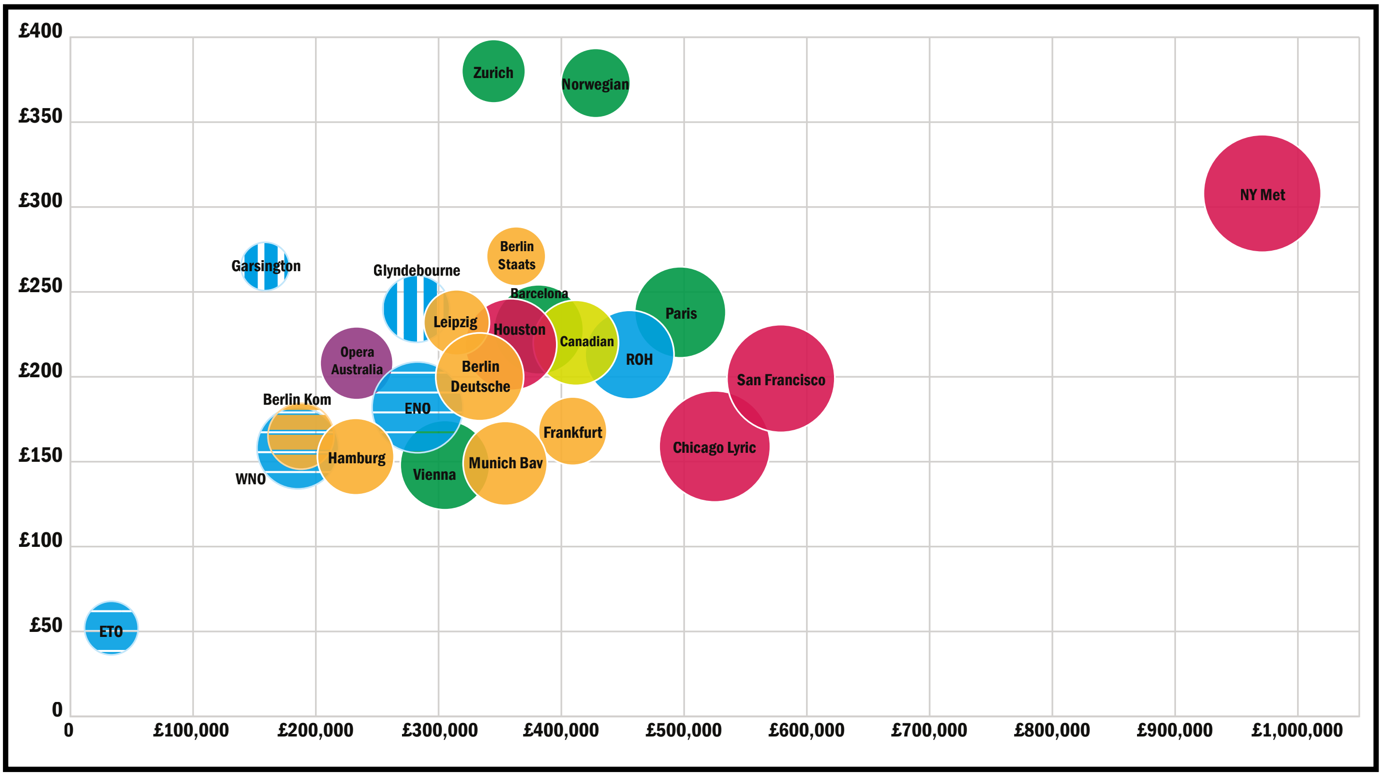
This was an admittedly somewhat simplistic, even dangerous, exercise, since opera companies are of course not like oil refineries churning out uniform products at the lowest possible cost. For better or worse, however, they are small- and medium-size businesses, as are orchestras and other musical enterprises. And eventually, like other businesses, if they don't find the money to cover their costs then they have no future – although we all hope that the music itself plays on, regardless of the fate of any particular musical institution. And in the spirit of contributing to the debate about opera companies as businesses, this month's Economic Ear continues its look at operatic costs, but switches the focus from performances to audiences.

CHART 1: ESTIMATED TOTAL AVERAGE COST PER ATTENDEE FOR SELECTED UK, OTHER EUROPEAN, NORTH AMERICAN & AUSTRALIAN OPERA HOUSES IN 2013



▲ See *www.classicalmusicmagazine.org/economic-ear-sources* for details on these figures. Colours are used to indicate different countries, with European countries other than the UK and Germany all shown in green

CHART 2: ESTIMATED TOTAL AVERAGE COST PER PERFORMANCE AND PER ATTENDEE FOR SELECTED UK, OTHER EUROPEAN, NORTH AMERICAN & AUSTRALIAN OPERA HOUSES IN 2013



▲ The size of the bubble indicates the size of the opera house. Horizontal stripes indicate local companies, vertical stripes festival companies. Three of the opera companies included in Chart 1 (Düsseldorf, Dresden, Stuttgart) have been omitted for clarity

Last month's analysis showed that the average cost per performance of the selected opera companies in 2013 varied widely, from £33,000 for English Touring Opera (ETO) to over £900,000 for the New York Metropolitan Opera. A slash-and-cut consultant might think that settles the argument, and not for the benefit of the Met, despite its grandeur. But it's more complicated, of course. Quite apart from the many reasons why this enormous difference might be justified (15 of which I listed in the previous article), there is the rather important matter of the audience. ETO may slog up and down the country catering for the opera-deprived rural masses, but it performs in venues with capacities of perhaps only a few hundred and plays to a total paying audience of around 50,000 each year. The Met, on the other hand, inhabits the largest opera house in the world, which can accommodate ETO's total annual audience in just two weeks playing to 'customers' who typically expect to see their money clearly visible on the stage.

Furthermore, the Met has become a world leader in digital transmissions and its Live in HD cinema relays in 2013/14 attracted an audience of 2.5 million at 'more than 2,000 movie theaters in more than 65 countries around the world'. That's an audience more than three times greater than the 800-900,000 who could see its 200 or so annual opera performances in the Met Opera's Lincoln Center venue in New York.

Leaving aside the digital transmissions, however, to focus solely on live performances in the companies' theatres themselves, you would still expect that there would be economies of scale – in other words that the average cost per audience member, or attendee, at a large theatre would be lower than at a small theatre since many costs are fixed regardless of theatre size or audience numbers. And there are massive differences in theatre sizes, even for relatively grand opera. For example, the largest theatre in our sample, the New York Met, seats 3,800 with additional standing places. In contrast, Garsington's purpose-built structure at Wormsley in Buckinghamshire seats only 600, and some of the venues visited by English Touring Opera (which doesn't itself have its own theatre with the associated fixed costs), such as Exeter's Northcott Theatre, can accommodate fewer than 500 – say 15% of the number at the Met.

Chart 1 uses the same figures as I used last month for the total expenditure of each opera company and calculates the cost per attendee at live performances (as defined in the supporting data on the website – see box at end). To widen the sample, I've also added several more opera companies from Austria, Australia, Canada, Spain, and Switzerland, although regrettably the figures for opera companies in many other countries of musical importance such as Russia and Italy are less easy to come by.

In the case of the costs per performance reviewed last month it was clear that the average costs of US and internationally-oriented opera houses were higher. However, it is difficult to see any obvious conclusion from the results in Chart 1, except that opera houses in some higher cost locations (Zurich, Oslo, New York) have high costs per attendee, although it is not clear whether their location and cost are related. While the large international houses also tend to have higher costs per attendee, this is not uniformly true since those at the Vienna State Opera (2,284 places including standing) and Munich's Bavarian State Opera (2,016) are very low while those at the smaller Garsington (600) and Glyndebourne (1,200) are high. ▶

But this hints at another factor that may be relevant: the size of the opera house. While Oslo (1,364 places) and Zurich (c 1,200) may be expensive in absolute terms, their opera houses are a third of the size of the Met (3,995 places including standing), as are the 'high-cost' Glyndebourne, Berlin Staatsoper im Schiller Theater (982 places), and Garsington. So how can we factor opera house size into the evaluation?

Chart 2 maps the average cost per performance on the horizontal axis and the cost per attendee on the vertical axis, and indicates the approximate size of each company's opera house by the size of the bubble. A rough visual assessment, however, lends only mediocre support to the idea that the size of the opera house has a bearing on average cost per attendee since there are both larger houses with high average costs and smaller houses with low average costs. And a quick arithmetical check confirms that there is no statistical correlation between opera house size and either of the costs.

> “ Opera does not enjoy sufficiently large audiences to 'pay its way' in the commercial sense ”

Although I have talked loosely about 'internationally oriented' companies, not all of the opera companies in the sample are primarily international in orientation. Chart 2 distinguishes two other types of opera company, namely festival (Glyndebourne and Garsington) and locally oriented (ENO, WNO, ETO, and Berlin's Komische Oper). The slight clustering of these two categories suggests a relationship, but there are too few in this particular sample to establish a meaningful correlation.

And what about comparisons between opera and some other entertainment activities? Last month's column mentioned that the average revenue earned from London's 8,000-plus performances of musicals in 2013 was £43,800 per performance, or perhaps a tenth of the cost of a top-tier performance of a grand opera. This represented an average income from each of the 8.2 million attendees (at 72% of capacity) of just over £43. The fact that this is less than the cost per attendee even of ETO (c £52), despite the fact that the revenue of a London musical also includes a profit margin, again illustrates the basic commercial problem for opera as well as classical music in general, namely that it simply does not enjoy sufficiently large audiences to 'pay its way' in the commercial or neo-liberal economic sense.

'Paying its way', however, does not necessarily mean that costs have to be covered by ticket sales. In Deloitte's analysis of the Top 20 football teams in 2013, for example, the proportion of total income deriving from ticket sales (so-called matchday income) varied from 10% (AC Milan) to 38% (Arsenal) with the figures for other teams spread in between, such as Manchester United at 30% and Liverpool at 22%. In nearly all cases, matchday income was far exceeded by revenues from each of broadcasting and commercial/merchandising. Since Glyndebourne, the Royal Opera, and ENO raised about two thirds, one third and one quarter of their income respectively from ticket sales in 2013, perhaps the economics of grand opera don't look quite so bad.

Manchester United's average league match attendance was 75,530 so if (clearly hypothetically) it had achieved this same attendance for all its 60 games both home and away and retained all the revenue, it would have reached a live audience of more than 4.5 million and the average income per attendee would have been £24. However, since it achieves nearly 100% of capacity for most games there is no scope for it to raise more revenue from ticketing other than through raising prices – and Liverpool's experience last February has shown where that can lead.

But even the proverbial Martian knows that Manchester United's live audience is a fraction of its television audience, including presumably most of what its US SEC FORM 20-F filing based on Kantar Media describes as its '659 million followers'. So does the picture look more rosy for classical music if we were to include 'digital audiences' in our calculations rather than just focusing on the live audience?

Ignoring radio and DVD, the most successful regular series of broadcast opera performances is the Met's Live in HD season which as we mentioned earlier has an audience of some 2.5 million, 65% of whom according to general manager Peter Gelb are from outside the US. If we were to include these numbers in our calculations, the average cost per attendee at the Met would come down from £308 to £64, or almost as little as ETO. Unlike live performance, however, unfortunately only a proportion of the associated net revenue goes to the Met, since costs are high and cinemas take a significant slice.

As a matter of note, one source (WCLV) reported 'average net profits of approximately $17m per season in recent years' for Met Live, although the Met's accounts for 2013/14 suggest revenues of around US $26m against expenses of around $18m on 'HD Theatrical'. Not much by football's standards, but not to be sniffed at, since that HD revenue figure alone exceeds the total revenues of all but the top half dozen major opera companies and orchestras in the UK. However, I assume that the Met treats broadcasting income as a contribution to the core business (live performance) rather than as a means to reduce average cost, and – like every music business – that it's looking for that virtuous combination of cost and revenues per performance that enable it to continue to at least break even.

I had originally intended to look more broadly at the issue of the amount and proportion of each classical music attendance covered by the price of the ticket as another key performance indicator. However, as the data above suggest (not to mention the comparison with football), this is not a straightforward topic and merits at least an article in its own right.

So while these data are useful in highlighting some relatively large differences in costs between opera companies which merit explanation, they do not provide easy answers. As I commented on embarking on this exercise, these kinds of performance indicators should be an essential part of the business of classical music – but they inform rather than instruct. CM

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ANOTHER NOTE ON THE METHODOLOGY

- For an explanation of the methodology, assumptions and caveats used to calculate the figure for classical music organisations, see www.classicalmusicmagazine.org/economic-ear-methodology
- Sources for other data can be found at www.classicalmusicmagazine.org/economic-ear-sources