SHOW ME THE MONEY

Antony Feeny examines the economics of opera

'Profits at the door instead of growing are diminishing, evidently endangering the continuation of this noble entertainment.' So said Cristoforo Ivanovich, the historian of Venetian opera, in 1681. And 140 years later John Ebers, manager of London's King's Theatre in the 1820s, asked: 'Why, when the price of admission to the Opera is higher than to any other of the theatres is it found that ruin or immense loss is the fate of the enterpriser?' And 140 years after him, the American economists Baumol and Bowen described crisis in the performing arts as being 'apparently a way of life: disappointing seasons, disastrous rises in cost, emergency fund drives, and desperate pleas to foundations for assistance'.

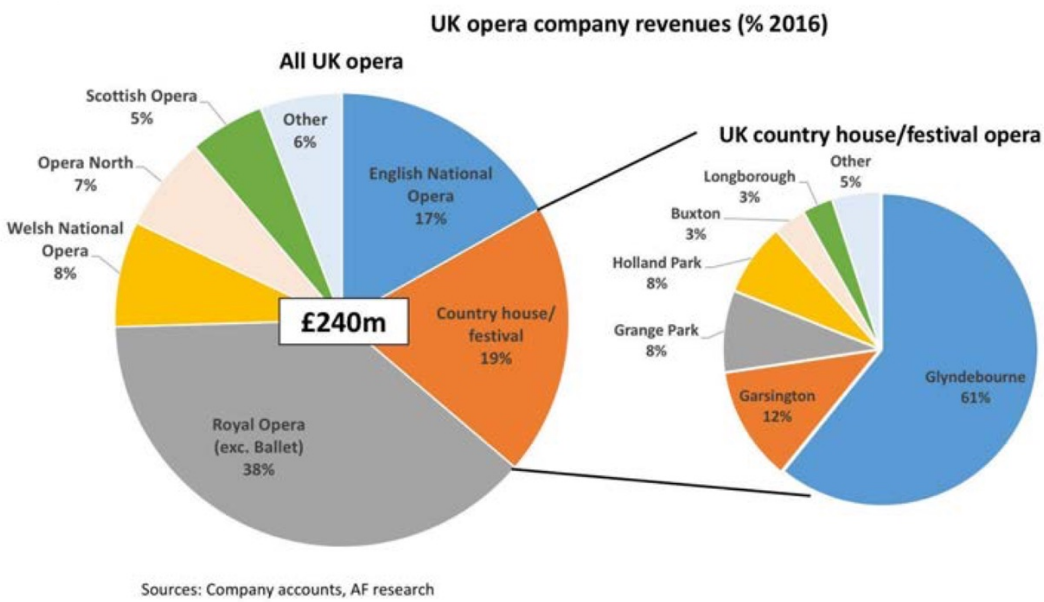
And so it continues: opera and money have always been awkward bedfellows. As we sit and enjoy yet another lavish and high-quality live opera performance, we might ponder that the price we paid for our tickets falls far short of what would be required to cover the full cost of the performance. Unfortunately this is not a benefit we enjoy when attending most commercial entertainments. But this situation appears to have been the norm over the 400 years of the art form's existence: the live staging of opera has never made sense in terms of conventional business economics.

So what, you might ask? Few art forms have consistently covered all their costs. Their objective is to enlighten and entertain, not to make money. To date there have always been enough wealthy individuals, institutions or governments willing to cover deficits to enable opera to carry on in substantially the same form while maintaining affordable ticket prices. But is it really sensible for those of us committed to the future of opera to assume that the status quo will endure? As investment companies keep telling us, past performance is no guide to the future. Funding from traditional public and private sources is being squeezed more tightly now than for decades, while demand for those funds from multiple good causes is also rising—and in the current climate the situation seems likely to worsen. Other businesses are having to change what they offer and how they offer it, often drastically. What better time can there be to look at the economics of the opera business and the challenges it faces and to ask whether things really can carry on as before? Are we reaching the point when we either have to pay more for our pleasures, or expect less as costs are cut, or reconcile ourselves to more radical changes to opera itself as its economics are realigned?

How large is the opera business?

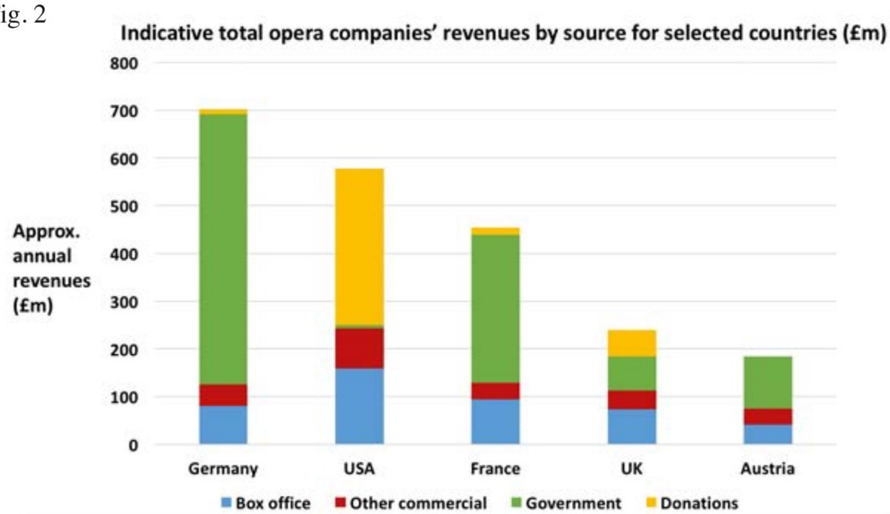
First we need to remind ourselves of the background to these challenges, and acknowledge some of the issues in this complex business. To begin with, let's recall how big (or small) the business of opera really is. Focusing just on the performance of live opera, in 2016 the revenues of opera companies in the UK totalled about £240m—which is also roughly their expenditure since most opera companies are not-for-profits functioning on a break-even basis. Figure 1 illustrates how the current revenues break down between the country's different opera companies.

Fig. 1



As a proportion of the UK's GDP, this is not just tiny but also both absolutely and proportionately less than other major European operatic nations. In fact, we should be encouraged that such an economically insignificant activity attracts so much media attention, even if not all of it is welcome. It's sufficient to place the UK at seventh position in the number of opera performances worldwide, although it puts the country far behind the global operatic powerhouse of Germany, which, according to the website operabase.com, accounts for more performances than the next five countries combined (USA, Russia, Italy, Austria, France). The approximate sizes and sources of operatic revenues of live-opera-performing organizations in five of these countries are summarized in Figure 2, along with estimates of the corresponding per capita operatic revenues for each country. This shows that the UK has much lower per capita revenues than Germany, France and Austria, but higher than the USA.

Fig. 2



Revenue/capita:	€10.27	$2.39	€8.43	£3.66	€25.43
Rev./capita (£):	£ 8.59	£1.80	£7.05	£3.66	£21.26

Sources: Deutscher Bühnenverein Theaterstatistik alloc. prop. to visitors, Opera America, UK company accounts; $ and € conv. at mid-2016 rates

Operabase.com recorded some 25,000 opera performances worldwide in 2016. If the revenues per performance were the same as for a typical European opera house, then the worldwide operatic revenues in 2016 might have been around £5 billion. By way of comparison, that's about the same as the total annual revenues of the top 15 European football clubs, although the latter have experienced significantly higher growth than opera.

Who pays for opera?

The key to opera's financial survival historically has been its ability to access different types of income to supplement the (invariably inadequate) box-office receipts. Originally these supplements comprised the capricious largesse of rich monarchs and nobles, such as Emperor Joseph II and Ludwig II financing Mozart and Wagner respectively. We might question now whether the peasants in these kingdoms viewed the redeployment of their taxes to fund opera as benignly as later history judges the artistic results.

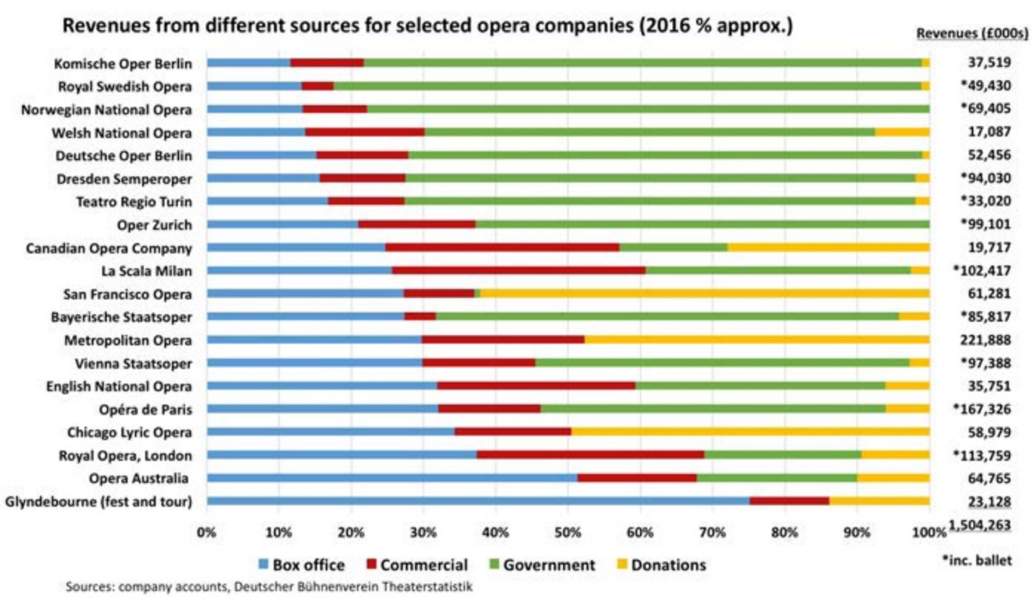
Many donors were also contributing funds in pursuit of the perceived elevated social status associated with opera, which has always been—and continues to be—a major factor in attracting money to opera. With the spread of wealth, other more notorious sources emerged to supplement ticket revenues. These included the gambling receipts that were integral to the business model of 19th-century impresarios such as Domenico Barbaja, who was active in Italy and Austria in the early 1800s.

As democratic states superseded hereditary monarchies, the large aristocratic gifts transformed into the government subsidies that became the dominant source of funding in the 20th century, especially in Europe. Other sources of revenue included donations from philanthropic opera-loving individuals, as well as sponsorship, merchandising and other commercial activities.

As Figure 2 also indicates, each nation has adopted its own approach to the funding of opera reflecting its specific history and traditions. The governments of Germany contribute more than two thirds of total funding; at the other end of the public-private spectrum, box office and donations account for the majority of operatic funding in the US, supported by substantial tax relief, which is another form of government subsidy. Funding in the UK splits more or less evenly between box-office receipts with other commercial income, government subsidy and private donations—as has been roughly the case for hundreds of years.

In recent years there has been a shift towards greater self-financing, which partly reflects a wider socio-economic trend. But there are still no major opera companies where box-office revenues alone come anywhere near covering the costs of live performances. The extent to which opera-goers benefit from public or private benevolence varies, as can be seen from the approximate percentages for selected opera companies shown in Figure 3. The total revenues of the 20 opera companies illustrated were £1.5 billion in 2016. Less than 30 per cent of this total came from ticket sales, and more than half from governments or donors. The situation for individual companies was broadly in line with the national priorities mentioned in relation to Figure 2. The precise mixture of the four funding components shown may have changed over time, but the need for external support has remained constant.

Fig. 3



Aren't opera prices high?

An easy way for opera companies to raise more revenues would be to raise prices, at least in theory, particularly since their core customers are alleged to be the grey-haired middle classes with surplus cash. Many of the companies' subsidizers, however, expect them to ensure that a reasonable proportion of the seats lies within the means of lower-income and young customers. This means that even the grandest of grand opera remains affordable at the bottom end, although ticket prices in countries such as the UK may seem high compared to those in, say, Germany.

Yes, the most expensive seats at Covent Garden or the Met are priced significantly higher than their equivalents in, say, Berlin, but the lowest prices at Covent Garden have increased only marginally in real terms over the last 70 years. An upper slips ticket to see *Tristan und Isolde* with Flagstad (and thus priced higher than standard) in early 1948 would have set you back 3s 6d, which after inflation would now be worth about £6—which is not that far short of the current typical price of £8. In contrast a stalls seat cost £1 7s 6d, which inflates now to nearly £50 compared with today's actual stalls price of over £200. In terms of average hourly earnings, those sitting in the gods would have had to work for about 70 minutes in 1948 to pay for their tickets as against 40 minutes in 2017, i.e. for 43 per cent less time now; those in the stalls would have had to work for nine hours in 1948 as against about 15 hours in 2017, i.e. 67 per cent longer now. This suggests that there has been some success in persuading the richer members of the audience to pay for the less well off, although this does not necessarily tell you about relative affordability for the two groups in today's rather different socio-economic environment.

But in a sense we're letting the tail wag the dog. Instead of pursuing a strategy of maximizing revenue and then dealing with low income and other special cases, we're prioritizing the special requirements. The obligation to provide affordable tickets ends up not only putting a ceiling on prices at the lower end, but also discouraging more innovative pricing.

The tradition in opera has long been that prices are fixed, although they may be set higher for more popular productions or specific stars. There are often last-minute and selective discounts to avoid empty seats at less popular productions, even though in the longer term the development of discount dependency may be counter-productive. In principle, however, subject to meeting social obligations, there is nothing to stop opera companies deploying the sort of dynamic pricing used by airlines where prices change daily so that everyone on a flight could in theory be paying a different price. Looking at the prices charged for pop concerts or football matches might also be enough to convince you that the problem with accessing opera has more to do with factors such as availability, access, social status and media reputation than with prices. You can buy a basic ticket to a complete *Ring* cycle, for example, for as little as £52 even in the UK, but this is likely to require priority membership and advance commitment of funds. Who's picking up the tab for those who could afford to pay more, but who quite understandably simply pay the asking price?

Why is opera so expensive?

Even if audiences had to pay more for their tickets, and donors were to contribute even more generously, that would still not be sufficient to deal with the looming funding challenges highlighted earlier. There remains the problem of live opera's adverse cost structure. The largest component of opera's costs is labour, the price of which has risen not just continuously since World War II but also much faster than inflation. The payroll expenses of opera's artistic, technical and administrative people can constitute up to two thirds of the total costs. And whereas one person and a few robots might now be able to build a car that would once have required a workforce of dozens, the equivalent productivity increases have as yet been unachievable in classical music. The conventional staging of an opera by Wagner or Strauss still requires a similar number of people as at the time of the first performance, including perhaps a dozen soloists, an 80-member orchestra, a chorus of over 50, skilled artistic and technical teams, front-of-house staff, administrative staff, and so forth. Although the average wages of the audience buying tickets may have risen, so have those of the musicians and technicians. And only a few of these are able to earn a desirable 'return' on the substantial time and resources they invest in building their techniques and careers.

Even the impressive operatic architecture reflecting opera's historical social status is a double-edged sword. Although opera companies now regularly share productions with two or three others, the different layouts and configurations of different opera houses limit the possibility of the shared economies that are possible in, say, shop design, where standardization and modulization help to lower costs. Although there is increasing experimentation with alternative venues, plus renting out the core opera house for profit, if you wanted a financially viable opera business, this is not where you would start from.

Inventive entrepreneurs and directors have also sought ways of dealing with the high cost structure without changing the nature—or at least the spirit—of the art form. We've seen small-scale productions and chamber versions with stripped-down orchestration, often presented by tiny opera companies compelled by their circumstances to be highly cost-sensitive with very simple sets, props and costumes. Some have also abandoned traditional theatres—see, for example, the exciting community-based participative operas of Graham Vick's Birmingham Opera Company.

The cost structure of these groups is invariably much lower, with few if any full-time employees, and their small-scale and community links enable the use of crowd-funding. Their artistic programming is often refreshingly innovative, and they provide critical experience to their practitioners. In other respects, however, their financial issues are not substantially different from the mainstream opera companies in as far as the sources and proportions of funding (box office, trusts and foundations, governments and Arts Councils, private donors) are similar, if smaller. So they too still face a low income-high cost problem, albeit on a smaller scale.

Can't opera be more efficient?

The problem of high cost structure is not unique to opera, but opera has so far found few opportunities to achieve the economies of scale that characterize other industries, even in the area of live entertainment. Repeatability is one possibility: the substantial capital and administrative costs of *Les Misérables*, for example, can be spread over a very large number of performances; its London production has already clocked up in excess of 13,000 performances over more than 30 years. Contrast this with the one or two dozen performances that a typical production of even a relatively popular opera might receive during its entire life. This offers limited opportunity to amortize the costs of sets, props and costumes, which might amount to several hundreds of thousands of pounds. And that's before we even consider the extensive rehearsal time required for each set of performances to ensure the high quality that opera-lovers have come to demand and expect.

There are some moves towards a more commercial direction, such as Covent Garden's 24 performances of *La Bohème* in its current 2017-18 season, the assumed surpluses from which will presumably fund more esoteric fare. But such 'hit-bingeing' is usually spread over a long season, which reduces the benefit that musicals gain from cramming in performances with multiple casts. Even if they can't generate large economies of scale, opera companies are using musicals as a cross-subsidizing strategy if they have spare capacity (and perhaps a less competitive theatrical environment), such as Opera Australia's 80 performances of *My Fair Lady* in 2016.

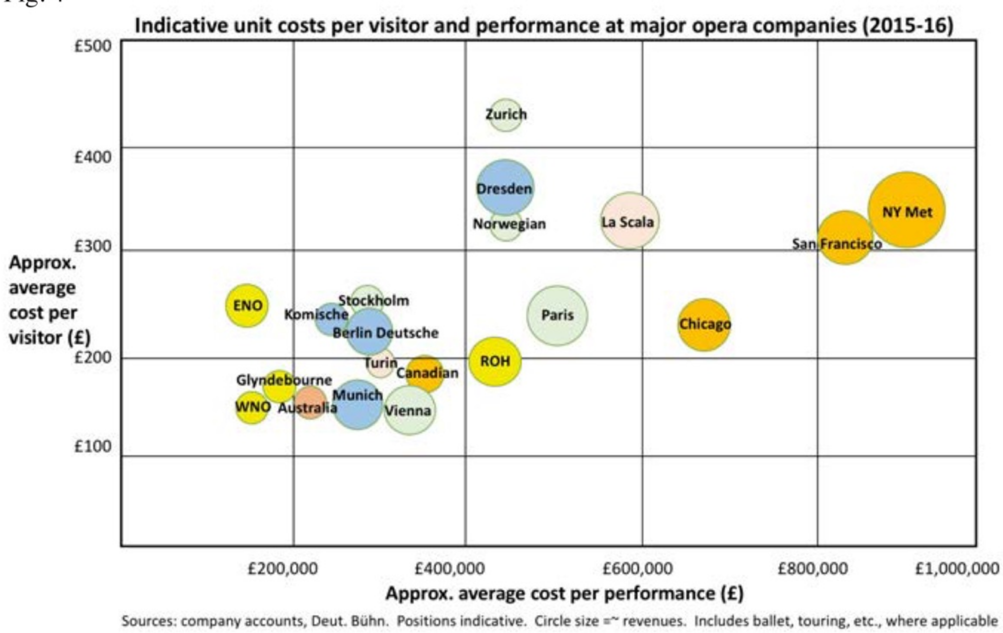
Relying on musicals to make money, however, is not encouraging for those searching for the staple operatic hits of the future. You can argue that opera is being relatively successful at 'product renewal': statistics from operabase.com show that at least 664 living composers have had at least one opera performed in the last five years. Unfortunately this hasn't made much impression on the core repertoire which accounts for the bulk of performances, with only one living composer (Glass) featuring in the top 50 most-performed opera composers and only eight in the top 100. The same statistics show that the average year of composition of the operas performed at major opera houses is around 1864. Nothing wrong with Shakespeare or Austen, but the theatrical and book businesses also need their Caryl Churchills and J.K. Rowlings.

Maintaining the flow of innovative new productions is a safer way of demonstrating vibrancy in the art form than betting donors' and taxpayers' money on new 'products'.

The high commercial failure rate of musicals (c. 70 per cent?), despite workshopping and testing, indicates the risk—and the industry has therefore evolved ways of dealing with this. It's true that the cost of staging new operas is an added disincentive, but the entrepreneurial impresarios of past times would have sought out new 'hits' to stay in business; in contrast, the bureaucratic managers of the present operate a different business model and have less direct incentive to do so, however complex their jobs might be in other respects.

And it's true that each success or failure is costly, although interestingly the costs involved can be quite different in different places. Although there's a general cluster of average costs per performance and per audience member at major opera houses of around £300,000 and £200 respectively, there are also significant differences in the average costs of staging even the existing repertoire, as illustrated in Figure 4. There are many reasons for such variations, ranging from auditorium size and configuration, through complexity of repertoire and international orientation, to locational costs and artistic choice—or indeed simply a practice of spending whatever budget can be raised. Before deciding which recipient to favour, however, a taxpayer or donor might reasonably expect to question why a dollar of tax or donation seems to go further at one opera house than at another.

Fig. 4



Is the future all doom and gloom?

Opera may defy conventional business economics, but it must have been doing quite a lot right to have lasted 400 years. The abundance of operatic performances and audiences worldwide, including in economically emerging nations, suggests that it's not going to die any time soon despite widespread concerns about ageing audiences. But what if the funding flows are reduced? Does that mean, as was suggested at the beginning, that we either have to pay more, or reduce costs, or make more substantial changes to the art form? And if change is inevitable, wouldn't it be better to start the process now in a structured way?

Pressures on government funding are not likely to go away, nor is opera likely to become a priority. You can make the case for subsidy based on the economic benefits generated or the need for world-class cities to have world-class cultural institutions backed by their governments. The case needs to be made vigorously, but we can't rely on politicians to push it in the present climate. And if you wanted the government to put more money into music, many of us might start with music education rather than performance; if music education goes into decline, the next generation will have few performers willing to invest significant time and funds in their own training, nor audiences wanting to hear them.

Donors too can be fickle, and have competing priorities. The begging bowl has never been a great business model, particularly when it allows someone else to control the agenda. Donations are also contingent on wider social and economic factors, as evidenced by Opera America's concern about the possible negative impact of the US tax cuts bill passed by the Senate in late 2017, or the adverse publicity surrounding the funding sources of some sponsors. And if opera were to become more popular and lose its social cachet, there may also be a risk of larger donors shifting funding to other higher-status activities.

We all believe in the possibility of reducing costs by cutting bureaucracy and administration, and ordinary businesses invariably find scope for cost-cutting and efficiencies whilst still fostering creativity. Indeed opera could immediately cut costs by staging Rossini's *Barbiere di Siviglia* rather than Wagner's *Parsifal* or a new work, but that's hardly a route to productive innovation. Technology may help to facilitate change in what is in some respects a semi-artisanal rather than an industrialized business. Doubtless we'll see more use of video, of 3D printing, or eventually even virtual reality, and other changes targeting longer-term cost reductions that will be both welcomed and resisted by craftspeople and audiences. But we haven't yet solved the problem of how to get cost-cutting innovation without compromising the operatic experience that we're trying to preserve.

And if you compare opera to some other entertainments, it has barely begun to tap the potential of digital distribution. New York's Metropolitan Opera dominates cinematic distribution, but so far this shows little signs of generating sufficient revenue to sustain major programmes of live performance. Most major football clubs raise less than 30 per cent of their income from matchday revenues (box office) and rely heavily on broadcasting. Is there an equivalent for opera?

Fortunately we are a long way from the final curtain, but we are also in danger of being stuck with repeating the same aria in the hope that the music will just play on. How long is it before those of us lucky enough to live near an opera house will have to pay more or expect less if we want to continue to enjoy live performances of this economically irrational art form that we love? Or perhaps we need more radical thinking about how the increasingly global business of opera can act more globally for its long-term survival.

Antony Feeny is an economist and accountant, and recently submitted his PhD thesis on the financial sustainability of opera and orchestral music. He is a trustee of theoperastory.com.