

The big US orchestras will survive the current economic crisis. So too will the small ones. But what of those orchestras with big ambitions but few resources? Thomas Wolf offers his analysis of the US orchestra market.

ORCHESTRAS

Which US orchestras will survive?

As 1992 drew to a close, the Sacramento (California) Symphony filed for bankruptcy. This event marked the end of a long downward spiral characterized by increasing deficits and growing acrimony between musicians and management. Though both the City and County governments had bailed the Symphony out on more than one occasion, there was no financial saviour this time around. There were too many bad memories of previous bail-outs. The most recent financial stabilization package in 1990 had included subsidy and a generous line of credit, which was drawn down and not repaid. Beyond the lack of financial credibility that this engendered, the City and County were too financially strapped in 1992 to consider more aid.

Nor were private donors standing in line to assist. Sacramento's population is less than 400,000 and it has no tradition of significant private philanthropy in the arts even when the large regional population of a million people is included. Sacramento is essentially a government town – the capital of California, which in 1991 was dealing with a multi-billion dollar budget deficit. Because Sacramento is not a corporate town nor a town of inherited fortunes, the philanthropic tradition is not strong, and saving an organisation that was hemorrhaging money was no one's idea of a good way to inaugurate a major fund-raising campaign.

Could the Sacramento Symphony's demise have been predicted? Many people saw the end coming, just as these same people are predicting a similar fate for many other orchestras in the United States unless substantive changes occur in the way they do business. The handwriting was being written on the wall in Sacramento almost a decade before the end as the orchestra began to formulate an unrealizable vision of its future ... and an unrealistic expectation of the community's capacity to support a major symphony operation in the traditional mode of 90–100 salaried players employed for most of the year.

The Sacramento Symphony, like so many orchestras in smaller cities, began to model itself on major orchestras in large urban centres. It lengthened its season and extended and expanded employment for its musicians. It believed those who claimed that, based on Sacramento's population, the community should be able to support a major symphony, giving concerts throughout the year almost exclusively in a full-ensemble format. But as the Sacramento Symphony learned, counting

noses is not a way to judge community capacity, and when it came down to the wire, the dollars were simply not there to save the orchestra.

Diagnosing Community Capacity

How does one determine whether a community has the capacity to sustain a major orchestra? No scientific instrument has been designed. But there are enough community characteristics generally associated with major orchestras in the United States to give one rough predictive measures of viability. If most of the key elements are in place, then the chances of success are good; if most are absent, then that community can probably not aspire to a major symphony orchestra as defined by the industry giants. Sacramento, California had few of these community characteristics which include the following:

► *International city:* Most major orchestras are located in major international cities – cities that are involved in international trade and have a regular stream of foreign visitors. The leadership of these cities – corporate chief executives, elected officials, and others – recognize that part of an international profile is determined by whether a city has recognised, world-class arts institutions.

► *Large audience base:* Without a large audience base, major symphonies cannot survive. Such an audience base can be supplied by the population of the city itself, visitors from the surrounding region, tourists, or some combination of these groups. However, like it or not, major orchestras are sustained by audience members who are highly educated and affluent. Therefore in determining the audience base, it is high income, college educated individuals who should be counted.

► *Age and tradition:* Major symphonies were built in the United States at a time when it was relatively inexpensive to do so. Older cities therefore have the edge over newer communities because they started earlier and established the tradition of symphony attendance and support, some as much as a century ago. These communities have also gotten a head start on endowments, concert halls, and other essential prerequisites.

► *Musical center:* Major orchestras do not operate in a musical vacuum in their commu-

nities. They represent the pinnacle of a kind of musical food chain replete with other high quality, professional, music organisations. Their musicians become associated with music training institutions including, generally, at least one nationally recognised conservatory.

► *Inherited wealth:* One of the great mistakes often made in determining community capacity is to look at how many there are in town who earn a great deal of money. But the driving forces of symphony giving in the United States has never been primarily people with high incomes; it has been and continues to be people with *inherited wealth*. If there are a few family fortunes in town, the chances of having a major symphony are small.

► *Corporate headquarters:* While it is individual wealth that generally builds major symphonies, large corporations help sustain them over time with contributions, board members, and community clout. Since American corporations concentrate the great majority of their attention (especially in giving) in headquarter cities, the number of corporate headquarters in communities is highly correlated with successful major orchestras.

► *Patterns of institutionalization:* Major American orchestras have large, complex institutions that can only survive if they have strong boards, skilled management, prudent financial oversight, and ample cash reserves. In order to determine the likelihood that these characteristics can be achieved, it is useful to look at other large community nonprofits such as hospitals, colleges, and social service organisations. If there appears to be little in the way of strong institutionalization in these sectors, a major symphony is very unlikely.

► *Competition:* Some communities can support one major arts institution, but only one. Thus, it is important to look at how many arts institutions there are clamoring for world-class status. For example, in some cities, one can find an internationally-recognised art museum together with a good, but not great, symphony orchestra. This is because these cities do not have the resources or the will to support two major arts groups.

► *Venue:* Major orchestras and great concert halls generally go hand in hand. While musicians may debate the merits of the acoustics in a particular hall, no great orchestra can survive in a hall that is not considered

outstanding by its community. Architecture, location, amenities, comfort, safety – and acoustics – are all elements of the public's feeling about the hall.

The Dilemma of the Mid-Sized Orchestra

Sacramento has few of the essential characteristics of a community that can support a major orchestra. But that was not its only disadvantage. Of the 250 or so symphonies that encompass most of the financial activity in the orchestra field, Sacramento's orchestra was among the 50 to 60 in the United States that are the most vulnerable. These institutions – with budgets of between \$2m and \$8.5m – occupy the financial middle ground in an industry that has not been kind to those that are neither very large nor very small.

These middle-sized orchestras are unlike the top 20 – those that are classified as Group 1 orchestras by the American Symphony Orchestra League and that have budgets that range upwards to nearly \$40m. The Group 1 giants are, as we have seen, mostly located in major cities with a large capital base and huge philanthropic capacity. These cities are capable of supporting institutions that will always have large operating losses. They often have long-standing traditions of concert attendance and they have a kind of civic pride that makes the loss of an orchestra unthinkable. Many of the largest orchestras are internationally-recognised institutions whose survival is considered essential to the vitality of the art form. Sacramento and its symphony were none of these things. Yet somehow people there, as in so many other smaller American cities, began to dream dreams that most objective observers would have called unrealistic in the extreme.

If the Sacramento Symphony was unlike the industry giants, it also bore little resemblance to the smallest professional orchestras – those that have the built-in flexibility to adapt in times of financial stress. Many of these smaller orchestras – with budgets of under \$2m – operate on what is called a 'per-service' arrangement with some or all of their musicians. Instead of an employment contract that assures a minimum number of paid services over a fixed number of weeks, these orchestras hire musicians on an as-needed basis. If the orchestras need to cut costs by playing fewer concerts, they hire the musicians less frequently. Thus, they enjoy remarkable flexibility with respect to fixed costs and ways of doing business. Most are realistic enough to know that their mission should not be to emulate the large orchestras. Unlike the Sacramento Symphony, the majority of these smaller orchestras have not committed themselves to operational policies, procedures, and work agreements that they cannot afford and that are extremely difficult to change.

An Industry in Crisis

In the United States today, virtually all symphonies are experiencing financial difficulties. Last year, The Wolf Organisation, Inc. conducted an analysis of the trends in the finances of orchestras in the United States over the past quarter century. The study, conducted for the American Symphony Orchestra League, revealed what most people already knew – finances are at a crisis stage for the industry. The industry recorded a deficit in 1991 alone of over \$23m and preliminary figures for 1992 as they are coming in look even worse. But most experts believe that both the very largest and the smallest institutions will withstand the financial challenges and will eventually find a way to reverse the red ink. They are not so sure about the middle-sized orchestras.

It will be the rare major American symphony orchestra (with budgets in excess of \$8.5m) that will declare bankruptcy in the next decade. These organisations must change, it is true – and change they will. But meanwhile their huge operating deficits will be absorbed (often by transfers from endowments) and these orchestras will – with time – find solutions to their problems. Similarly, the smaller symphonies are adapting. In our study on the financial condition of orchestras, this fact was crystal clear. While most symphonies were mounting larger and larger deficits, many of the smaller orchestras were breaking even or posting surpluses.

The statistics from the 1991 study, *The Financial Condition of Symphony Orchestras*, tell a grim story for the middle-sized orchestra in the United States. This report analyzed the financial history of such orchestra from 1966 until 1991. Consider the numbers for the 22 Group 2 orchestras (with budgets of approximately \$5m to \$8.5m) and the 48 Groups 3-4 orchestras (with budgets of approximately \$1.8 to \$5m).

► Between 1966 and 1991, Group 2 orchestras more than doubled the number of concerts they offered annually (from 66 to 141); Groups 3-4 orchestras quadrupled the number of concerts (from 40 to 157). Audience statistics indicate that the driving force for these changes was not demand for tickets. Rather, it was changes in the number of guaranteed services to musicians. These middle-sized orchestras have been headed on a dangerous course of providing too much product. This has led to a need for expensive marketing departments to comb the landscape for ticket buyers.

► Between 1966 and 1991, the deficits of Group 2 orchestras grew by an extraordinary 11,964%. Even adjusting for inflation, this represents a real increase of 2,770%. The deficits of Groups 3-4 orchestras grew 8,871% or an inflation adjusted 2,034%. Compare

these figures to those of the industry giants. While their deficits grew, they did so at a more modest inflation-adjusted 331%. The rate of increase of the deficits for Group 1 orchestras was only about 1/8 of Group 2s and 1/6 that of the Groups 3-4.

► Finally, consider this statistic for the industry as a whole in the United States to understand why middle-sized orchestra cannot simply fund raise their way out of the rapidly rising deficits and costs. In 1971, it cost \$5.00 per audience member for orchestras to deliver a concert. Of this amount, orchestras earned roughly \$2.25 and had to raise \$2.75. By 1991, it cost \$26.00 per audience member to deliver a concert. Of this amount, orchestras were earning only \$10 and having to raise the balance of \$16. This represented an almost six-fold increase in the amount of money that orchestras had to raise for each attender to take in a concert over the space of just two decades.

Solutions

Is there any hope for the middle-sized American orchestras? I believe there is. But it will mean a fundamental reconceptualization of the way they do business. There are at least three solutions that could work and probably many more.

The first solution requires creativity and flexibility but is the one that in the end may bring the most benefits to the community. It is to expand and diversify the kinds of services that the orchestra provides. Keying especially on earned income possibilities, the middle-sized orchestra can continue to offer its players the kind of remuneration they now receive, if in return the players are willing to do a host of things that they do not now do as part of their contract agreement with the orchestra. They might teach in the orchestra's own community music school, work with school teachers in developing curriculum-based music education classes, provide instruction at local community colleges, and be available to play concerts in smaller ensembles or as soloists wherever the orchestra – through a newly created concert service bureau – places them. Their services would not only be made available in the local community but in the surrounding region, where, in many cases, very little high quality music is available.

There is a clear *quid pro quo* offered by this arrangement. The orchestra makes a commitment to pay a living wage to its players. In return, the orchestra is permitted to seek out those income-producing activities that help improve the bottom line. There are some musicians who have argued and will continue to claim that such an arrangement compromises the artistic integrity of the ensemble as a performing unit and undermines the musician's sense of professionalism. They should be reminded that before 1960 virtually

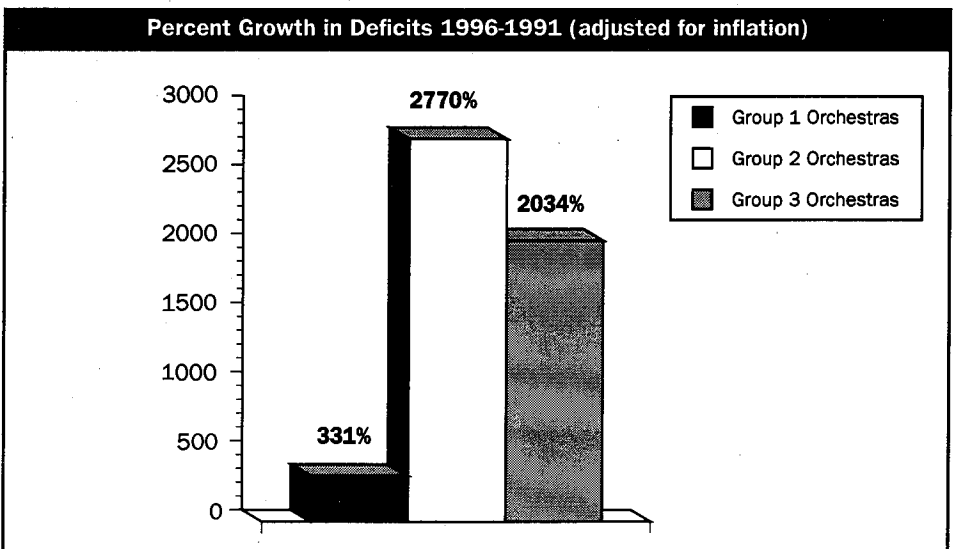
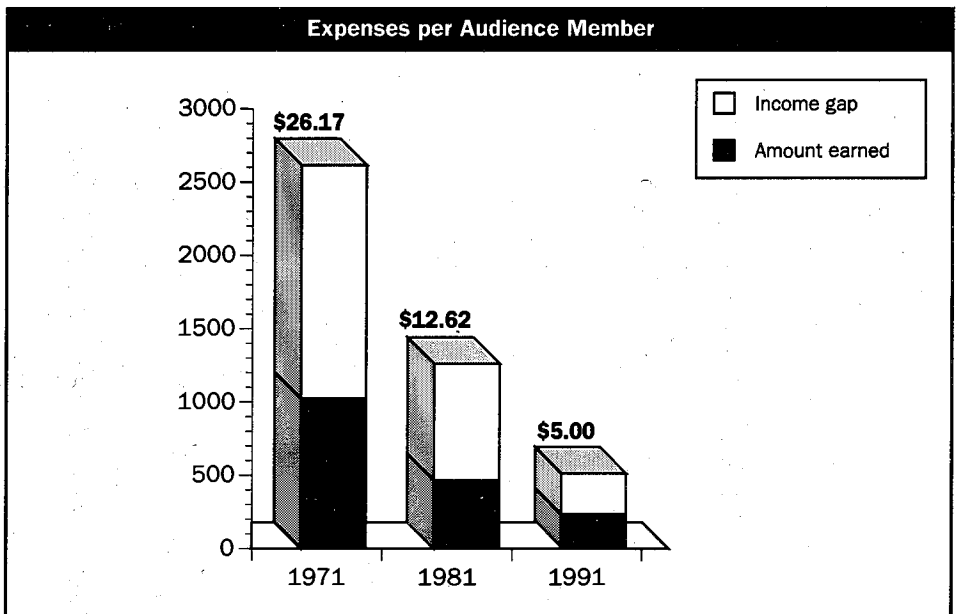
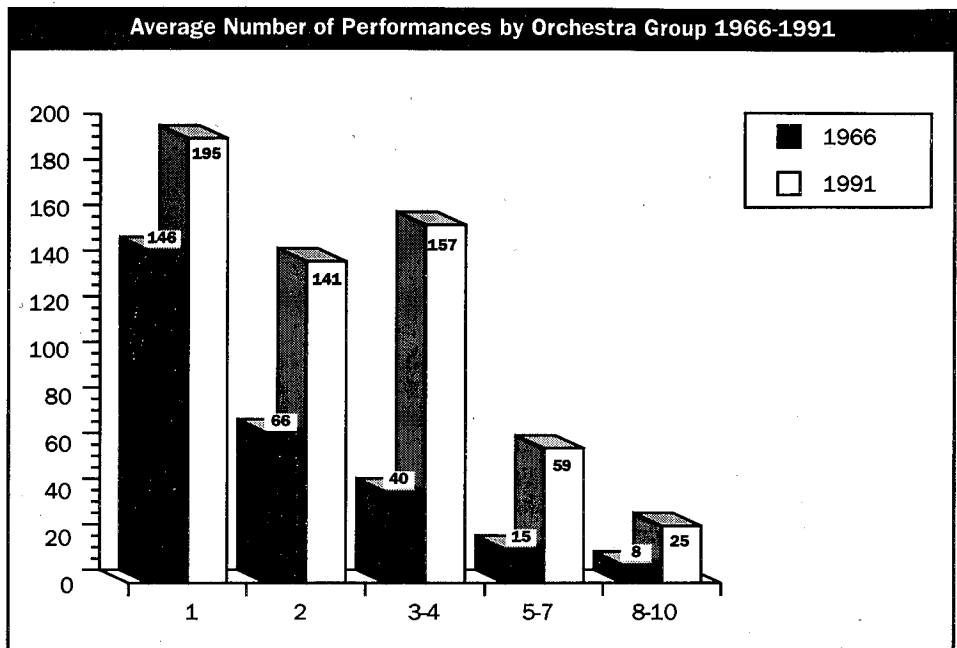
all musicians – even those in major orchestras – put together a free-lance life of this kind. The difference, in this case, is that the orchestra would assume responsibility for finding the services and would provide a guaranteed salary to the musicians.

Does a need for these additional services exist and who will pay for them? The current financial stability of community music schools in these days of economic scarcity indicates that there is a continuing flow of cash for the teaching services of talented musicians. Similarly, grant-making agencies – many of whom have abandoned orchestras because of their perceived elitism – are already providing additional funding for arts education. Orchestras can make a case for some of this funding if they expand their commitment to curricular-based musical activities rather than the old fashioned ‘bus-’em-in-and-bus-’em-out’ young people’s concerts. String quartets and woodwind quintets can be sent to various sites in numerous communities to capitalize on the considerable ‘audience development’ dollars that is one of the few areas of arts funding that is increasing in the United States.

There are many other functions that orchestras can take on from concert presentation of income-generating popular entertainment to the development of retail stores selling music, books, instruments, and other musical paraphernalia based on the museum store model (which has shown in many instances that a modest capital outlay can translate into a substantial net dollar return). For each orchestra and each community, the mix will be different. But if the goal is to sustain the institution’s size and level of activity, then the range of activity itself needs to be diversified. There is every reason to believe that the Sacramento Symphony might have solved its financial challenges if it had concentrated on diversifying its activities and income base.

The second option is simple and somewhat draconian. It is to cut operations. If the United States auto industry, if IBM, and if countless American corporations can do it, so can under-capitalized orchestras. If middle-sized orchestras cannot be significantly restructured, then the trustees of these orchestras will have to bite the bullet and admit that their organisations cannot continue to provide either the number of concerts or the wage guarantees that they are now trying, unsuccessfully, to sustain. The number of musicians required for a symphony orchestra is relatively fixed, but the number of services and the amount of time they are employed for is not. Painful as it will be, these orchestras must reduce the amount of work they are paying for.

That cutting and reduction in costs will have to come on the administrative side as well. These middle-sized orchestras must reduce the size of their staffs. If they play fewer concerts, if they pay less in wages to their musicians, if there are fewer seats to sell and less money to



Analysis by the Wolf Organisation Inc. based on data provided by the American Symphony Orchestra League

be raised, then the administration can and should be cut. It is interesting to note, in this connection, that over the past several years the percent of an orchestra's budget going to artistic personnel has remained fairly constant at about 51% of overall expenses. This may not be a magic number but it does suggest that expense reductions might aim for some parity between artistic and non-artistic cuts.

The third solution for middle-sized orchestras is the most speculative and theoretical. It offers the possibility that a symphony orchestra, in selected communities, might be merged with a local arts council. Properly structured, the resulting merger would undoubtedly offer operational economies. At the same time, local tax-based public subsidies could be used to ease the pressure on the orchestra's bottom line.

In the United States, from 1965 until 1985, many local governments in cities as varied as Los Angeles and Salina, Kansas (population 50,000) established publicly funded arts councils. These organisations and agencies were created to administer cultural facilities, present arts events and festivals, regrant city funds, engage in cultural planning, administer percent-for-public-art programmes, work with local tourism and economic development

councils, provide technical assistance to artists and arts organisations, and so on. Today these agencies often receive dedicated public subsidies in the millions of dollars from transient occupancy taxes, entertainment facility user fees, cable franchise fees, sales taxes, and other sources. Orchestras often struggle for a small share of these dollars by applying for grants; but invariably the actual dollars they receive are modest.

There could be a very different scenario. Imagine an orchestra that was absorbed and became part of a local arts council. Instead of two corporate entities, there would now be one with the orchestra being part of a merged umbrella structure. This arrangement could be mutually beneficial to both the orchestra and the arts council. For example, orchestra staff – with many years of experience behind them – might be utilized to offer the very technical assistance programs in marketing, fund raising, and board development that local arts councils now pay outside consultants to provide. The orchestra and its musicians could be used as the center piece of local arts festivals. Orchestra/Arts council staff with expertise in facility management and marketing could be utilized to run all the public arts facilities in town rather than maintaining parallel staff as is now

the case in many communities. The symbiotic nature of the relationship would immediately become apparent at a time when many local governments are looking for more efficient ways to do business.

It has been said that no self-respecting community can be without a symphony orchestra. But, as more and more cities are discovering, the continued vitality of an orchestra cannot be assumed. The middle-sized orchestras are probably the most vulnerable. They are the ones that must re-invent themselves. Perhaps if they do, they will provide inspiration and new ideas for the entire industry. And that can only be to the good.

Thomas Wolf is President of The Wolf Organization, Inc., that carried out the 1991 study The Financial Condition of Symphony Orchestras for the American Symphony Orchestra League. Wolf also conducted a cultural assessment for the City of Sacramento in 1992. The author wishes to extend appreciation to consultant William Moskin of Sacramento for his assistance in the analysis for this article. However, the views expressed are his own.

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