

## REIMAGINING THE ORCHESTRA SUBSCRIPTION MODEL

A STUDY BY OLIVER WYMAN, COMMISSIONED BY THE LEAGUE OF AMERICAN ORCHESTRAS





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## **FOREWORD**



Jesse Rosen

President and CEO,
League of American Orchestras

The need to revitalize orchestra subscriptions to meet the needs of today's audiences is absolutely critical. Many of our members have shared with me their concerns about the decline in subscription purchasing that is affecting not just their own orchestras, but also the performing arts sector as a whole.

Until now, there has been a lack of field-wide research in this area, so we knew we had to employ a data-driven approach to find strategies to meet the challenge. Working with the expert team at Oliver Wyman and in partnership with our members, we created the largest ever orchestra sales dataset. Ten years of transaction data, combined with new surveys and buying simulations, provided an incredibly strong empirical basis for the analysis you see here in the final report. The result is a compelling set of recommendations and guidance, that I urge orchestras as well as other performing arts producers to consider as building blocks for future audience and donor development strategies.

We cannot thank Oliver Wyman enough for the tremendous amount of pro bono time, resources, and expertise it has donated to this initiative, which provides orchestras with the tools to reimagine the subscription model for today and in the future.

lesse Rosen





## **EXECUTIVE SUMMARY**

Over the past decade, the traditional subscription model has been under significant pressure, with subscriptions faring worse than single tickets.

Consumers, however, remain broadly satisfied with their experience at the orchestra and are not abandoning it for other art or entertainment options. Their dissatisfaction appears to be with the orchestra subscription model itself – and how orchestras interact with consumers more broadly as new forms of consumer engagement emerge in other industries.

To revitalize the subscription model, orchestras need to adapt the traditional package to the changing demands of consumers, including their desire for greater flexibility, increased customization, and deeper relationships with vendors.

Orchestras should consider moving away from a transactional mentality and migrate toward building closer, "stickier" relationships with customers.

Millennials are not as price sensitive as many have assumed. To attract them, orchestras should consider expanding their use of social media, apps, and "bring-a-friend" programs that rely on the high level of interconnectedness of those young consumers.

Revenues could potentially be increased by capturing the untapped demand in the marketplace for small curated subscription packages as well as for large customized options.

Orchestras can improve the value proposition of their offerings by allowing subscribers to pay in monthly installments and by adding a "buy now, choose later" option that allows customers to select specific concert dates closer to the performance.

Finally, orchestras could re-envision their value proposition altogether by offering a membership completely divorced from attendance frequency. Tiered membership programs that confer belonging, exclusivity, and certain benefits – such as access to a VIP lounge in the orchestra hall and preferred access to single tickets – are a promising alternative model.

Orchestras have a variety of alternatives to test in response to declining subscriptions. We hope that this work may help them continue to be vibrant institutions serving communities across America.

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## INTRODUCTION

Is the business model of U.S. symphony orchestras broken? Over the last few years there's been no shortage of concern in the industry regarding economics. The cost of putting on an orchestral concert continues to rise, yet ticket sales volumes have been declining and subscription revenues – historically the keystone of ticket sales – have been dropping even more quickly. Many in the industry have become worried that the traditional orchestra subscription model might be reaching the end of its life. But does all this anxiety accurately reflect what is really happening in the orchestra world and, if so, what can be done about it?

To answer that question, we analyzed transaction-level data spanning the past decade and covering millions of audience members from more than 40 orchestras. We further unpacked these trends by conducting a survey of several thousand concertgoers to better understand their preferences and drivers of satisfaction. To identify the changes that might be required, we then tested our results in a market simulation of more than 10,000 purchasing

decisions that revealed what audience members really value from their local orchestra. Our findings were unequivocal: the orchestra subscription model is not obsolete, but it does need to adapt in order to tap into the full audience potential and ensure a healthy financial future for orchestras in the United States.

Our research showed that orchestras should consider moving away from a transactional mentality and start to build closer, "stickier," and more two-way relationships with their audience members. Moreover, orchestras could potentially increase their revenues by decoupling the size of subscription packages from their customizability to capture the latent demand in the marketplace for small curated subscriptions as well as large customized options. Orchestras might also benefit from implementing innovative membership programs that confer exclusivity and additional benefits, such as those offered by American Express and Starwood Hotels and Resorts. But before discussing those solutions in detail, let's take a step back to gain a better understanding of the data and market analysis behind the recommendations.

The cost of putting on an orchestral concert continues to rise, yet ticket sales volumes have been declining and subscription revenues – historically the keystone of ticket sales – have been dropping even more quickly.

## **ABOUT THE RESEARCH**

The journey toward this report began about eight years ago, when Oliver Wyman partnered with the League of American Orchestras to introduce the findings of a study of single-ticket buyer retention. Last year, the League approached us to discuss doing a similar study, this time looking at the challenges facing the traditional subscription model. As with the 2007 research, our approach to this topic was very data-driven. We began by analyzing the League of American Orchestras' annual Orchestra Statistical Report, which provided broad directional trends and a sense of how the industry has changed over the last 10 years. We then collected a decade of transaction-level data from 45 orchestras across the United States, which allowed us to examine the behavior of over four million individual customers through time. Much of our trend analysis in this report is based on that dataset, which we believe to be the most comprehensive ever assembled to study the behavior of orchestra audiences in the United States. We then conducted a survey of more than 4,000 orchestra-goers to understand why people subscribe, why they lapse, and what they might want that is not currently being offered. (Exhibit 1 contains a map of the orchestras that participated in our research.) Finally, using our understanding of customer behavior and preferences, we tested potential new subscription offerings in a buying simulation. Talking to more than 1,000 respondents, we observed more than 10,000 simulated purchase decisions that revealed the relative attractiveness of offers and customers' willingness to pay.

Although we were able to build one of the largest repositories of orchestra data ever assembled, our focus still had to be narrow enough to draw meaningful conclusions across budget categories and geographies. As such, we had to omit a number of important factors related to the overall health of an orchestra, including the following:

- The experience that audience members have in an orchestra's concert hall,
- The specific programming being performed,
- Optimal strategies for pricing and discounting,
- The ideal hall size or season length,
- Strategies around attracting and retaining donors, and
- The mission and vision of an orchestra.

Where these topics intersected directly with subscription issues – for example, price sensitivity for subscriptions – we tried to address them, but we need to stress that our analysis does not cover all factors that affect the financial performance of an orchestra. We'd also like to emphasize that each orchestra's situation is unique. As such, our aim is to present a general overview of the sector from which individual organizations can then draw their own conclusions and develop programs that will work for their institutions.

#### Exhibit 1: Special thanks to participating orchestras

#### **UNITED STATES**

ALASKA

**Anchorage Symphony Orchestra** 

AI ABAMA

Alabama Symphony Orchestra Huntsville Symphony Orchestra

**ARKANSAS** 

Arkansas Symphony Orchestra

ARIZONA

**Tucson Symphony Orchestra** 

**CALIFORNIA** 

Los Angeles Chamber Orchestra Los Angeles Philharmonic Oakland East Bay Symphony, Chorus & Youth Orchestra Pacific Symphony Philharmonia Baroque Orchestra San Francisco Symphony Santa Rosa Symphony

COLORADO

Boulder Philharmonic Orchestra Colorado Springs Philharmonic

CONNECTICUT

Stamford Symphony

FLORIDA

Orlando Philharmonic Orchestra Pensacola Symphony Orchestra Tallahassee Symphony Orchestra

**ILLINOIS** 

Chicago Symphony Orchestra Lake Forest Symphony

**INDIANA** 

Fort Wayne Philharmonic Indianapolis Symphony Orchestra

Des Moines Symphony

KENTUCKY

Lexington Philharmonic Orchestra

MARYLAND

Baltimore Symphony Orchestra

MASSACHUSETTS

**Boston Baroque** Boston Symphony Orchestra Orchestra of Indian Hill

MICHIGAN

**Detroit Symphony Orchestra Grand Rapids Symphony** Midland Symphony Orchestra Southwest Michigan Symphony Orchestra

MINNESOTA

Minnesota Orchestra

The Saint Paul Chamber Orchestra

**MISSOURI** 

Kansas City Symphony St. Louis Symphony

NORTH CAROLINA

Asheville Symphony Charlotte Symphony North Carolina Symphony

Lincoln's Symphony Orchestra Omaha Symphony

**NEW JERSEY** 

New Jersey Symphony Orchestra

**NEW YORK** 

Albany Symphony Buffalo Philharmonic Orchestra New York Philharmonic

OHIO

Cincinnati Symphony Orchestra Lima Symphony Orchestra The Cleveland Orchestra

OKLAHOMA

Tulsa Symphony Orchestra

PENNSYLVANIA

The Chamber Orchestra of Philadelphia

The Philadelphia Orchestra

Pittsburgh Symphony Orchestra

TENNESSEE

Knoxville Symphony Orchestra Memphis Symphony Orchestra

Nashville Symphony

**TEXAS** 

Dallas Symphony Orchestra Fort Worth Symphony Orchestra Houston Symphony Lubbock Symphony Orchestra

Plano Symphony Orchestra

Utah Symphony | Utah Opera

WASHINGTON

Seattle Symphony

WASHINGTON D.C.

National Symphony Orchestra

WISCONSIN

Milwaukee Symphony Orchestra

CANADA

National Arts Centre Orchestra





## ANALYSIS OF SALES TRENDS

We began this work by examining changes in the orchestra field over the past decade. During that time, overall ticket sale volumes for orchestras have declined at an annual rate of 2.8%. (Note: We'll discuss percent changes in terms of compound annual growth rate, or CAGR.) But the decline in sales was sharpest in the first half of the decade. For the last five years (2010 to the present), there's actually been a slight increase in ticket sales. The growth hasn't been enough to bring the industry all the way back to 2005 sales levels, but the recent trend has been more promising.

It's also important to note that the decline did not affect all products equally. Specifically, subscription sales have declined more rapidly than single-ticket sales. In the first part of the decade, single ticket sales actually eroded more quickly than subscriptions, but in the last five years, single-ticket sales have bounced back, while the decline in subscriptions has flattened out.

Of course, this sales decline did not go unnoticed by America's orchestras. In fact, orchestras have responded to declining sales volumes by increasing their per-ticket prices for both single tickets and subscriptions, although the price hikes have plateaued over the last few years (see Exhibit 2. Please refer to PDF report for full Appendix on all exhibits). Combining ticket volumes and prices to get concert revenues, we find that rising prices have more than

offset falling volume, creating an overall increase in total concert revenues of about 1.7% per year over the last decade.

That's the good news. The bad news is that many orchestras report having seen their costs rise at an even higher rate. And even though total concert revenue has risen over the last decade, subscription sales, which have traditionally been central to the orchestra business model, have declined by nearly 2% per year.

Another key finding from our analysis was that the pain has not been spread evenly across the industry. Orchestras with budgets of more than \$7MM are feeling the pinch more than their smaller-budget counterparts that, on average, have actually experienced steady growth in subscription revenues over the last decade. Exhibit 3 (see Appendix for full exhibit data) illustrates subscription revenues by budget category.

Indeed, the smaller orchestras, with budgets of \$500,000 to \$7MM, are often agile enough to adapt quickly to changing circumstances. In some cases, they experience less competition by virtue of being the only classical music venue in their home cities or towns. They also generally offer shorter seasons, smaller subscription packages, customizability, and flexible options that are better suited to current audience demand.

To summarize our trend analysis, the decline that we are seeing in subscription revenues indicates that attempts to offset declining ticket volumes by increasing prices have not been completely successful. As shown in Exhibit 4 total subscription revenues for the average orchestra have fallen by 15% over the last decade, while the decline of 24% in the total volume of subscription packages is much more pronounced, confirming that per-package and per-ticket prices have risen sharply. Moving forward, with each additional price hike, orchestras will risk discouraging those consumers who find the new price point prohibitive.

Exhibit 2: Orchestras have responded to eroding volumes by increasing per-ticket prices

TICKET TYPE	2005	2014
Subscription ticket price	\$29	\$38
Single ticket	\$26	\$39

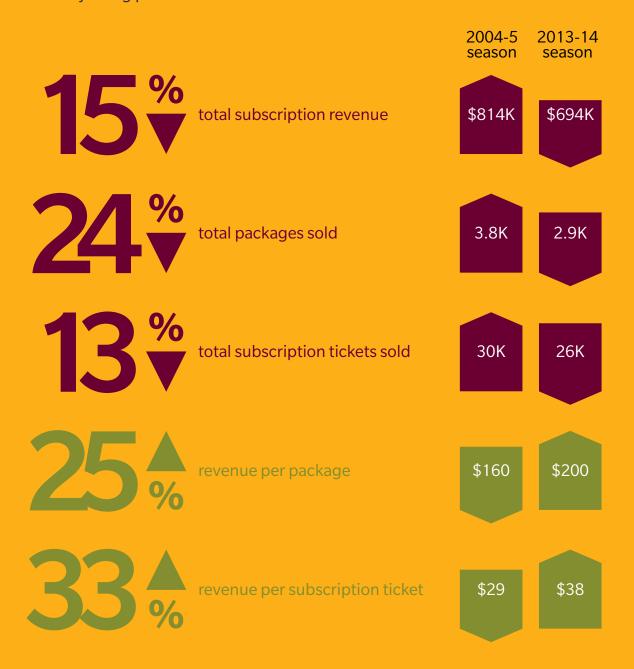
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Exhibit 3: This decline has been concentrated in larger orchestras, with smaller orchestras showing some subscription revenue growth

BUDGET	CAGR
\$16MM+	-2.4%
\$7MM-\$16MM	-1.7%
\$500K-\$7MM	+2.2%

Note: Overall average by budget (\$MM)

Exhibit 4: The revenue decline indicates that lower volumes are being only partially offset by rising prices



## A SUSTAINABLE STRATEGY?

Given the steep price increases over the last decade, many orchestras might be concerned that their current strategy is unsustainable. What we found is indeed worrying and may indicate that the tradeoff between volume and total revenue is reaching a breaking point.

Our analysis considered a number of factors. First, we investigated whether price increases have made the orchestra too expensive compared to alternative arts and entertainment options. What our research showed is that people who subscribe to an orchestra now spend on average more than half of their total arts and entertainment spending with that organization. In other words, they spend more on going to the orchestra than on all other arts and entertainment options combined. So while subscribers appear to be a very committed audience, there may not be much room left to keep taking a greater share of their total arts and entertainment dollars. Second, we looked at whether a decade of price increases has driven customers away. In our customer research, we found that price was the top reason for subscription lapse and the primary reason single ticket buyers cite for not trading up to a subscription. Finally, we simulated what would happen if orchestras continue to raise their prices and found that the current average ticket price is close to the maximum that orchestras can charge before reaching the tipping point where the relationship between volume and total revenue turns sharply negative.

So our research does indicate that the traditional subscription model in its current form may have reached the end of the line, and that its decline could accelerate if orchestras continue to try to push up ticket prices to compensate for smaller audiences. However, with ticket sales contributing only one-third of revenues for the average orchestra (with the rest coming from other forms of earned and unearned income) and subscriptions making up only half of those ticket sales, is a decline in one-sixth of the income stream of the average orchestra really a cause for concern?

Unfortunately, the situation is worse than it may initially appear, because subscriptions are closely tied to another critical source of income - individual donations. Our analysis shows that last year 88% of contributed dollars that can be traced to ticketpurchasing history were from current or previous subscribers, indicating a strong correlation between subscriptions and philanthropy. Yet, despite the decline in subscriptions, total donations have not decreased, indicating that many subscribers have been subjected to a double squeeze: paying more for concerts and being asked to donate in greater amounts as well. In the future, orchestras will find it increasingly difficult to ask for larger and larger contributions from their remaining donors, and as the subscriber base continues to diminish, there will be a risk of an amplified impact on total income as donors also dwindle. All of this raises the question of why, after a century or more of success, is the traditional subscription model faltering?



## REASONS FOR THE DECLINE

HYPOTHESES. WHAT IS DRIVING THE DECLINE IN SUBSCRIPTIONS?

ONE. PEOPLE ARE JUST LOSING INTEREST IN CLASSICAL MUSIC. SOMEWHAT TRUE.

TWO. OTHER ARTS AND ENTERTAINMENT OPTIONS ARE TAKING AUDIENCE SHARE FROM ORCHESTRAS. FALSE.

THREE. ORCHESTRA-GOERS ARE UNHAPPY WITH THEIR ORCHESTRA EXPERIENCE.

OVERWHELMINGLY FALSE.

FOUR. SUBSCRIBERS ARE DISCONTENT WITH PROGRAMMING OR THE QUALITY OF PERFORMANCES. SOMEWHAT TRUE.

FIVE. SUBSCRIBERS ARE DISSATISFIED WITH THE SUBSCRIPTION PRODUCT ITSELF. LARGELY TRUE.

There are several hypotheses to explain the decline in subscriptions, and we tested each of them against the data. The first hypothesis is that people are simply losing interest in live classical music, and there's some truth to that. According to data from the National Endowment for the Arts (NEA SPPA 2012), attendance to classical music concerts has undergone a steep decline of 32% over the past 10 years. However, this has to be viewed in context, as other performing arts have also experienced similar decreases, and the decline for orchestras has stabilized since 2008. Although, according to the NEA, 9% of adults actually attended a classical music performance in 2012, our own consumer research indicates that 48% of adults listen regularly to classical music, with 30% claiming to have listened to an hour or more in the last month. These figures should be taken with a grain of salt, because self-identification as a classical music listener varies greatly between different data sources. That being said, with only 9% of adults attending classical music performances, there's a large gap between listening and attendance, indicating an attractive pool of potential orchestra-goers that the industry has yet to capture.

The second hypothesis is that other arts and entertainment options are taking audience away from orchestras. We believe this to be false. As we just noted, all other performing arts have also experienced attendance declines, and we also found from customer surveys that those who are

decreasing their spending at the orchestra do not tend to increase it at any specific competing art form. That is, we could not detect any pattern by which, for example, the opera might consistently be taking audience from orchestras. Moreover, attending the orchestra doesn't meaningfully predict attendance at other performing arts venues, indicating that the fear of leakage to other arts may be based on a false premise – an orchestra-goer may very well not consider the opera to be a substitute.

So, if people are still interested in classical music and they aren't shifting their spending to other forms of live performance, are they just unhappy with their experience at the orchestra itself and voting with their wallets? Our research indicates that this hypothesis is overwhelmingly false. In fact, 90% of each patron type is satisfied with their orchestra-going experience and subscribers are the happiest, with 77% reporting they are "very satisfied." As subscribers are widely regarded as the segment most engaged with the music, we examined possible dissatisfaction with programming or the quality of performance. We found that 19% of lapsed subscribers listed a dislike of programming as one of the reasons why they didn't renew, yet they tended not to have problems with the quality of performances. These results are highly significant because audience members rate programming and performance quality as 15 to 30 times more important than any other factors driving

their satisfaction. So there is a risk that if orchestras get their repertoire wrong then subscribers will let their subscriptions lapse.

A final hypothesis to explain the decline in traditional subscriptions is that it is the pricing and packaging of the concert series that is unattractive to audience members rather than the underlying product. Our research found that such issues were indeed a major factor in the decline of traditional subscriptions. The top reasons for subscribers lapsing include price, scheduling issues, a desire to choose one's own programming, and dissatisfaction with the programming being offered. Of these four reasons, three are explicitly related to package features such as price, concert dates, and content. Digging deeper into the data, we found that the dissatisfaction was specifically with what we've called the "curated subscription," otherwise known as "Fixed," "Full," and "Mini" packages. In contrast, customized subscriptions – usually called "Flex" or "Create-Your-Own" (CYO) – have actually experienced great success, with 67% growth in the past decade. Among those orchestras offering both curated and customized options, customized packages have high uptake, accounting for 26% of total subscription revenues. The relative success of customized subscriptions indicates that the right package can be attractive enough to overcome waning interest in classical music or dissatisfaction with programming.

# UNDERSTANDING CUSTOMERS

But what's the right package to offer to generate bigger audiences and higher revenue? Before we could answer that question, we needed to understand how patron preferences and the introduction of customized options have changed the game. Using our transaction-level data, we examined conventional wisdom about audience behavior to see whether it still held true.

Looking first at single-ticket buyers, we investigated the effectiveness of trying to get those customers to trade up to subscriptions. We found that single-ticket buyers do trade up, but very slowly – at rates of only 3% per year. Moreover, as the vast majority of them trade up after only one year of single-ticket purchasing, only 4% are expected to trade up over a decade, indicating that the "acorns into oak trees" model of developing small-ticket customers into long-term subscribers hasn't had much success for orchestras. Another assumption is that single-ticket buyers are an important but unreliable part of the patron pool in that they tend to be "snackers" who buy one year and not return the next. Our data confirms this suspicion: only 19% of single-ticket buyers

purchase tickets again the following year, indicating that the industry has yet to adequately address the single-ticket churn problem we analyzed in our 2007 study.

Curated subscribers – traditionally the core of the orchestra audience – were the next group of interest. We studied whether customized options might be cannibalizing curated packages and found that less than 2% of curated subscribers trade down to customized options. Curated subscribers are also thought of as loyalists, with the conventional wisdom being that, in one way or another, they will engage with the orchestra. So if they let their subscriptions lapse, for instance, they will still purchase single tickets. Unfortunately, we found that this is false. In fact, three out of every four people who let their curated subscriptions lapse purchased absolutely nothing the following year and dropped out of the concert revenue pool completely. Another belief is that, once a subscriber has lapsed, he or she is gone for good. Again our data indicates otherwise. Specifically, there's significant evidence of "churn and return," with 12% of subscribers who lapse later

re-subscribing. Finally, curated subscribers have long been considered the core of the subscriber base, with customized subscribers being only a small fraction. This is still the case, but that mix is shifting rapidly. In fact, 2014 marked a turning point for orchestras, as it was the first year when more than half of new subscribers chose customized subscriptions over traditional curated packages where both were offered.

Given the trend toward customized subscriptions, orchestras would benefit from a better understanding of how those patrons behave. Conventional wisdom says that customized subscribers have fundamentally different preferences from curated subscribers, but the research suggests that the two groups have more in common than many in the industry believe. A quarter of customized subscribers who continue to purchase subscriptions trade up to curated subscriptions. This actually makes them a far better pool for development than single-ticket buyers. Yet despite that, they can be somewhat fickle. Customized subscribers are thought to lapse frequently, and the data does suggest they are twice as likely to lapse as curated subscribers.

As we've discussed, much has changed in the past 10 years, with the audience evolving in ways that challenge long-held views about the orchestra business model. First, we have seen that the growth in curated subscribers is less than the rate of lapse. According to our data, one of every six curated subscribers churns each year, and acquisition and reacquisition rates are low. The implication here is that the overall patron pool is shrinking. On the other hand, customized subscribers are volatile but growing. Customized subscribers churn more frequently but they often return, and brand new subscribers tend to choose customized subscriptions. So although the patron pool that chooses customized subscriptions might look very different from year to year, in contrast to the traditional curated subscriber pool it is steadily expanding. While it is always dangerous to simply project out trend lines, our analysis suggests that, with the current pace of change, customized subscribers could be one-third of all subscribers by 2017 and the total number of curated subscribers may halve.

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## **BROADER TRENDS**

To better understand how subscriptions need to evolve to create a sustainable business model for orchestras, we also need to pay attention to what's happening in the broader world of consumer behavior. First is the issue of shorter attention spans. As more entertainment options emerge to compete for everyone's attention, consumers are becoming increasingly reluctant to commit to any single option and their loyalty tends to be more ephemeral. In general, consumers are increasingly demanding a variety of content and flexibility in scheduling – the move toward an "on-demand" world. Many young people, for example, expect any television program or movie to be immediately available on multiple viewing devices. In their world, total flexibility is expected, with anything less being inconvenient and representing a failure on the part of the entertainment industry.

Another trend is customization. The Internet Age has brought with it the capability of many vendors to respond to specific consumer requests in ways that had previously been impractical, if not impossible. As a result, more goods and services have become hyper-specialized. In areas as diverse as clothing, snack boxes, books, and music playlists, consumers are becoming used to vendors learning from their choices and responding with personalized products and tailored recommendations.

Finally, to counteract consumer "snacking" behavior and the trend toward less loyalty, vendors have been moving away from transaction-oriented approaches to relational strategies that focus on creating "sticky" relationships with high switching costs. Previously, many companies sold products and trusted that, if consumers were satisfied with them, they would buy again. Now, vendors are much more actively pursuing

## Customized subscriptions have elements of modern subscriptions, including customizability and regular access to the core product.

continued contact and deeper engagement with customers and relying on these relationships to help tailor the product and ensure future sales. As a result, consumers have begun to expect more perks and a better experience in exchange for their loyalty. With these shifting power dynamics, customer loyalty has become a currency that individuals can increasingly put a value on.

The interplay between product and customer relationship has created a variety of "benefit territories" that goods and services can occupy, with each territory representing the value a consumer receives from a particular combination. In Exhibit 5, vendors are plotted on the x-axis along a spectrum of transactional to relational strategies. The products lie on the y-axis, from those that are more related to the core product to those that are more related to the broader customer experience. Taken together, the two

axes define a large space of different strategic options. These can range from simple transactions focused on a core product to "VIP experiences" designed to secure long-term loyalty. We want to emphasize here that no location on this map is "better" than another. This is simply a tool to look at different strategies for product positioning and consumer engagement.

Ample opportunity still exists for one-off transactions based on a good core product, and vendors in the bottom left quadrant of Exhibit 5 share many common characteristics. These vendors tend to deliver an attractive core product but often charge customers for add-ons or additional services, and don't explicitly put a value on the full customer lifecycle at the point of purchase. Many popular vendors work in this way, including retailers like the Gap, grocers, or traditional hard-copy newspaper and magazines with subscription options.

## Exhibit 5: These market changes have created a number of "benefit territories" that goods and services can occupy

# Less related to core product

# EXPERIENCE

#### **EASY ENTRY**

Removing the hassle from the subscription experience

#### **PERSONAL OFFER**

Targeting content to consumers' self-reported interests

#### **COMMUNITY**

Sense of belonging or shared experience with other consumers

#### VIP EXPERIENCE

Access to invitation-only events

#### BASIC Relativ

SERVICES

GOODS

CONTENT

Relatively basic services (e.g., a gym membership)

#### CUSTOMIZED

Services with customizable elements to pick and choose

#### **PERSONALIZED**

Customized services based on interests and preferences

#### **FULL PACKAGE**

Premium services tailored to fulfill different needs

#### **BRAND LICENSE**

Products available for purchase

## PACKAGED CONTENT

Curated content options for the consumer to pick from

#### **GIFTS**

Light-hearted gestures for a milestone in the consumer lifetime

#### **LIMITED EDITION**

Rare, celebrityendorsed, or limited-in-quantity editions

# More related to core product

#### **CORE CONTENT**

Current content in traditional and/or digital format

#### **SUPPLEMENTS**

Current and archival content supplemental to the basic offerings

#### **MULTI BUNDLES**

Subscription to other products in addition to the target product

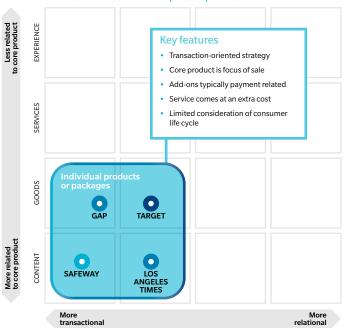
#### **PREMIUM**

Exclusive content or priority access to existing content

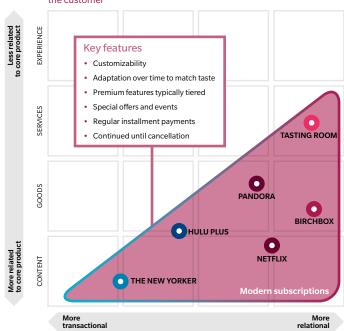
### More transactional

More relational

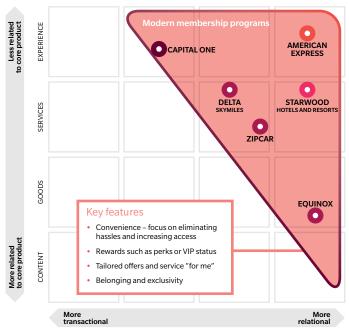
#### There is still ample space in the world for one-off transactions focused on a simple core product



Modern subscriptions try to move away from a single transaction and build an ongoing relationship with the customer



Memberships tap into a desire for access and exclusivity and are less related to the core product than any other offer type



The interplay between product and customer relationship has created a variety of "benefit territories" that goods and services can occupy, with each territory representing the value a consumer receives from a particular combination.

In contrast, "modern subscriptions" move away from ad hoc transactions and increasingly try to build "stickier" relationships with customers. The products and services offered are often customizable, and many also adapt over time to match customer tastes. They could have premium features that might be tiered to include special offers and events that enhance the customer experience. In addition, modern subscriptions might try to build ongoing relationships by offering customers the option to pay by installments and by continuing service until customers have explicitly canceled or opted out. An example of such a subscription that builds a "stickier" relationship with its customers while remaining focused on its core product is The Economist. The magazine's digital subscription allows access to current and archived content on multiple devices, but the content isn't customized and customers are still basically buying a magazine.

Other examples that approach customer preferences using more dynamic and sophisticated models include Netflix, which gradually learns the individual tastes of customers to make viewing recommendations, and the Tasting Room, which sends subscribers a

monthly curated case of wine based on their profile and previous ratings, and also makes suggestions about food pairings and wine-related products. This "preference learning" approach has also migrated into lower value products like snacks via vendors like Graze.

The final product type is a "modern membership," which taps into people's desire for access and exclusivity. Modern memberships are less related to the core product than they are to a sense of belonging. Their attraction is that they try to eliminate certain everyday hassles, give rewards such as perks or VIP status, and provide tailored offers and services. American Express perfectly illustrates a very relational company that's focused on the overall customer experience. All American Express cards provide the same core transactional service, namely, the ability to purchase something and pay for it later. In some respects, they are a less functional payment method than Visa or MasterCard because Amex is accepted at fewer locations. But premium American Express cards like the Amex Platinum also provide benefits that are completely divorced from the core product - whether it's travel assistance when people are abroad or access

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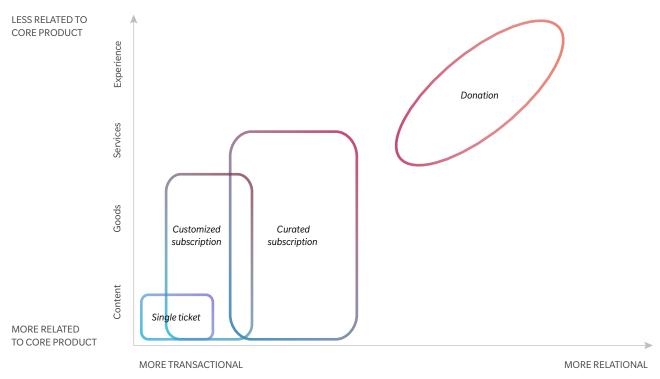
to airport lounges and special events – all of which are designed to give subscribers a strong sense of belonging and exclusivity.

Currently, orchestras have characteristics of all three product types, but no single orchestra product is really a modern subscription or membership. Exhibit 6 illustrates the offerings of orchestras in terms of the benefits territory framework outlined above. Single tickets are squarely in the realm of transaction-oriented single products, with the vast majority of customers being "one and done." Customized subscriptions have elements of modern subscriptions, including customizability and regular access to the core product. Curated subscriptions span all three product types, including some elements of convenience and exclusivity – but they still require a yearly transaction for continued

access, differentiating them sharply from modern subscriptions or memberships. In the orchestra world donations tend to have the most experience-related features, although one-time donations are still highly transactional.

An important point here is that the value propositions of orchestra products overlap greatly, and they often do not highlight some of the products' most valuable features. For example, a common industry term for curated subscriptions, "Fixed Packages," does not draw attention to the product's premium, curated nature. The reality is that most orchestra offerings are treated primarily as single transactions related closely to the core product, indicating significant potential to diversify their product mix and occupy more of the benefits territory framework with offerings that are more relational and less related to the core product.

Exhibit 6: Orchestra products are primarily transactional, so there is room to grow into other benefit territories





## RECOMMENDED ACTIONS

Armed with this knowledge of how the marketplace has shifted, what can orchestras do to reverse the subscription revenue decline and generate new sources of income? Of course, all orchestras are different, both in their resources and in their appetite and need for change. As such, we recommend a range of solutions, from relatively conservative to more disruptive. These solutions garnered the best outcomes from the many potential options we tested in our buying simulation – a powerful market research tool that allowed us to determine the effect of individual variables on customer uptake (whether or not they would buy a package) and willingness-to-pay (how much they would spend). The market simulation also revealed if certain variables were attractive to particular customer segments – for example, those who have never been to the orchestra versus longtime subscribers or Baby Boomers versus Millennials. We'll summarize the options first and then talk about each of them in greater detail.

#### ATTRACTING MILLENNIALS

The first solution involves the least change from the status quo – the recommendation that orchestras tailor their outreach and acquisition strategies for Millennials to de-emphasize discounts and focus on the most effective acquisition channels.

## DECOUPLING CURATION FROM PACKAGE SIZE

The second calls for decoupling curation from package size to capture unmet demand in the marketplace for small curated packages and for large customized options.

#### IMPROVING THE VALUE PROPOSITION

The third solution focuses on improving the value proposition of subscriptions by reducing their perceived pricing through monthly installments and increased convenience.

#### OFFERING NEW TYPES OF MEMBERSHIP

And finally, we recommend creating new membership programs to create a sense of belonging that goes beyond that associated with either traditional curated subscriptions or philanthropic giving. These offerings would be distinct from current ticket sales or donation programs, and they should be tiered to confer a sense of exclusivity.

Improved millennial targeting was a by-product of our research but not strictly related to how the subscription model should evolve. Leaving that recommendation aside for now, our buying simulations suggest that improved subscription products could offer a substantial increase in revenue of up to 20% for orchestras across the United States. Specifically, diversifying available combinations of package size and customizability will improve the value proposition of current offerings and address a mismatch between demand and supply that is leaving money on the table. In contrast, memberships would mostly be purchased by those already engaged with the orchestra, thus lifting audience numbers only slightly, but generating substantial revenue growth with minimal cannibalization. It's important to note here that our recommendations are based on market simulations, and effective execution and a good understanding of the local market are necessary to secure any gains. We now take a closer look at each of these recommendations in greater detail.

#### ATTRACTING MILLENNIALS

Millennials – those who are 18 to 35 years old – now represent 31% of the adult population. A traditional way of reaching these consumers is through discounting, but our research raises questions about the relative efficacy of that approach for orchestras. Exhibit 7 (see Appendix for full exhibit data) shows the price sensitivity of different consumers, with the x-axis representing total revenue, and the y-axis indicating uptake (that is, the percent of people who would choose to purchase a subscription offered to them versus a single ticket or the option not to buy). Not surprisingly, as the price-per-ticket increases, the uptake decreases, but there's a trade-off. Up until a certain point, price increases are revenue-generating, but from that point on higher pricing erodes uptake such that the total revenue actually decreases, indicated by the bend in the different curves.

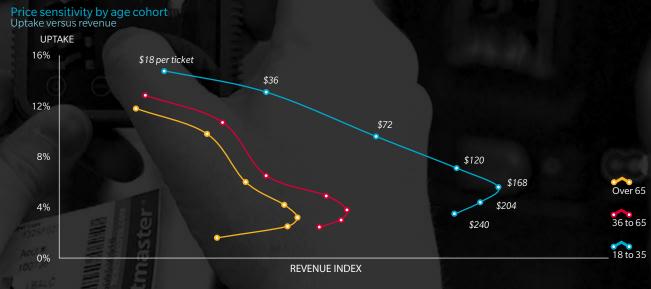
The interesting thing here is that the curve for Millennials is higher and less steep than for older consumers. In other words, Millennials have higher uptake at all price points and are less price sensitive. This obviously goes against the widespread belief that older consumers are the most likely to attend orchestral concerts and Millennials the least likely. So there must be an issue with awareness and customer acquisition.

What can orchestras do to bridge the gap? Millennials tend to hear about music, arts, and culture through word of mouth, online publications/ads, and social media. Orchestras should examine whether they

are using these channels strategically. Could they, for example, expand their use of social media, apps, and "bring-a-friend" programs that rely on the high level of interconnectedness of Millennials? They might also consider de-emphasizing discounts as the primary means of outreach to young consumers and instead investigate awareness and the efficacy of different channels. That's not to say that discounts are ineffective in getting people in the door, but they might not be the best way to target a consumer segment that appears willing to pay market prices for what they perceive to be a premium product.

Orchestras might also consider implementing seller recommendations based on past purchases and searches because Millennials are used to relying on such information. Amazon, for example, remembers what customers have bought or looked at and then dynamically recommends other items. Millennials are also familiar with recommendations based on customer profiles. A modern subscription service called Stitchfix, for example, sends customers curated clothing selections based on questions like "what fit of jeans do you like to wear?" and "what type of style are you looking to incorporate into your wardrobe?" Orchestras could implement similar tools on their home pages, allowing interested consumers to define their preferences and schedules and receive recommendations. This will improve the experience for all customers, not just Millennials, and also help increase the acquisition of newcomers who might be unfamiliar with the orchestra's products.





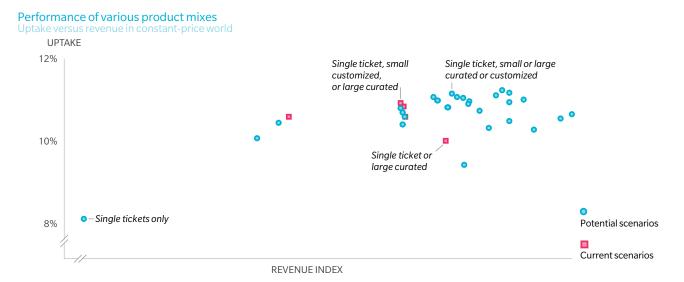
#### DECOUPLING CURATION FROM PACKAGE SIZE

Our next recommendation is to diversify the available combinations of customizability and package sizes. Fewer than half of orchestras in our dataset currently offer customized (Flex or Create-Your-Own) options, and when such offerings are available, they tend to be tied to package size, with customized subscriptions usually including fewer concerts than curated ones. Our analysis, however, shows that decoupling these two features – customization versus curation and package size – can lead to increased revenue.

Exhibit 8 shows total revenue versus total uptake for hypothetical orchestras with different product mixes. Each point represents a different combination of single tickets and curated and customized subscriptions of varying sizes that was tested in the buying simulation.

The red squares represent currently available product mixes such as single tickets plus one large curated subscription, or single tickets plus one small customized subscription plus one large curated subscription. As can be seen in the figure, the worst outcome is in the bottom left, an orchestra offering only single tickets, while a number of product mixes other than the current offers would potentially garner higher uptake and revenue. One attractive product mix is an orchestra that offers single tickets in addition to small and large subscriptions that can be either customized or curated. Thus, the recommended actions are straightforward: orchestras should offer customized subscriptions if they don't already, and they should decouple size from curation level to capture the demand for small curated packages and for large customized ones.

## Exhibit 8: Orchestras should diversify available combinations of package size and customizability to maximize revenue potential







#### IMPROVING THE VALUE PROPOSITION

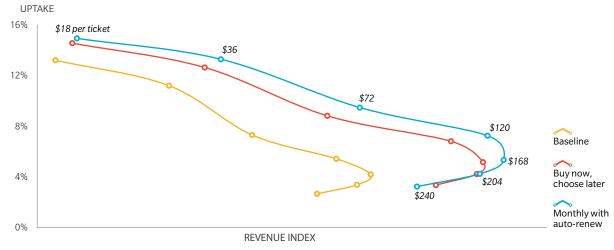
Next, orchestras should consider implementing measures to reduce "sticker shock" and increase convenience and flexibility. As mentioned earlier, price is the primary reason for lapsed subscriptions and the top reason why single-ticket buyers don't trade up. But this doesn't necessarily mean the price point is too high. It indicates that people don't perceive the subscription to be worth the price tag. In Exhibit 9 the gold line is the baseline uptake for a subscription. Keeping prices constant but expressing them as monthly installments leads to a significant lift, which is shown as the blue line. Thus, orchestras can combat sticker shock by allowing subscribers to pay in monthly installments, perhaps through an auto-renewal system. This is how many modern subscriptions models like Amazon Prime, Netflix, and the new Apple Music service work. They require a specific action to opt out of the service

whereas traditional orchestra subscriptions require an annual "opt-in" decision.

The second biggest reason for lapsed subscriptions and for single ticket buyers not converting to subscriptions is the inability to commit to dates in advance. In Exhibit 9 (see Appendix for full exhibit data), the red curve shows the uplift from adding a "buy now, choose later" option that allows customers to pay upfront and select specific concert dates closer to the performance. Some orchestras have already implemented this option, called a "Flex Voucher," and more organizations should consider doing so as there is apparent demand for more flexible scheduling. Clearly these types of options create operational challenges for box offices and patron services, but the perceived lack of flexibility is causing some potential audience members to not take a subscription at all.

## Exhibit 9: Orchestras should take measures to reduce sticker shock and increase convenience and flexibility





#### OFFERING NEW TYPES OF MEMBERSHIP

Finally, a solution that involves the most change and which potentially redefines the relationship between an orchestra and its subscribers is to offer memberships that are completely divorced from ticket buying. The type of membership we envision includes experience-related perks and special offers but would not be tied to how often people attend the orchestra. Someone might, for example, attend the orchestra 10 times a year and not purchase a membership, while another person could attend just once (or never) but still have a membership for the sake of belonging and exclusivity. Across other industries, consumers have shown high engagement with memberships, but many orchestras have yet to explore the offering of such products. Currently, the primary mechanism for people to obtain a sense of belonging and exclusivity with an orchestra is through philanthropic donations. Because memberships would not include tickets, they would have very little cannibalization of ticket sales. Additionally, since memberships would primarily focus on access to perks outside of the core orchestra experience, they would not undermine the goal of public accessibility that

many orchestras have. Exhibit 10 (see Appendix for full Exhibit data) displays various membership benefits, such as access to a VIP lounge in the orchestra hall or preferred access to single tickets. Surprisingly, the membership feature that most induces purchases is tiering: simply putting a "Platinum" label on a membership has a bigger impact on uptake than any concrete benefit. Of course, we are not recommending that orchestras create a membership program without any benefits at all, but we do contend that they have a lot of leeway in the benefits they choose to offer. Our recommendation is that orchestras develop membership options to build relationships that create a sense of belonging, and then tier these offers with multiple levels such as Standard, Silver, Gold, and Platinum in order to confer exclusivity. These packages can be premium in nature without carrying a premium price tag – even affordable memberships performed well in our simulations. In creating these memberships, orchestras should select low-cost benefits that will improve the orchestra experience without unduly eroding the product's margins.

Currently, the primary mechanism for people to obtain a sense of belonging and exclusivity with an orchestra is through philanthropic donations. Because memberships would not include tickets, they would have very little cannibalization of ticket sales.



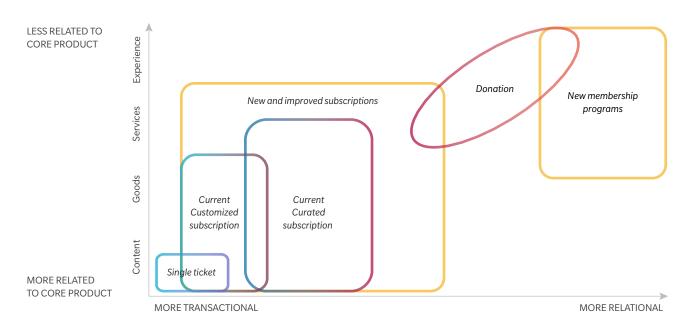


and that past challenges may have been due to issues in execution rather than the concept itself. The simple truth is that, although orchestras do have reasons to be concerned about the traditional subscription model, there are also many reasons to be optimistic about the future as long as the industry evolves and responds to the changes in consumer behavior and preferences that we observed in this research.

Great orchestral music enriches the communities of the United States. Our research shows that the quality of the product is excellent and that there is

significant latent demand. The challenge for America's orchestras is to find ways to package and sell the orchestral experience in new and exciting ways that reflect changing consumer behaviors and preferences. We hope this research has made a contribution to that effort and that America's orchestras can use the recommendations we have made to develop robust and sustainable business models that allow them to continue to play some of the world's greatest music for the largest possible audiences.

Exhibit 11: The recommended solutions occupy more benefit territories, allowing patrons to select their ideal product combination



# GUIDANCE FOR ORCHESTRAS

What should orchestras keep in mind when implementing these solutions?

- Think carefully about your unique circumstances.
   Understand how your orchestra deviates from the average trends highlighted in this report.
- Measure your current product offerings against your peers to locate any areas of opportunity in the benefit space.
- Engage with your patron pool to understand their preferences.
- Plan strategically by establishing your goals and identifying any restrictions, including your and your board's appetite for change.
- Customize new offers for your local market.
   Be mindful of public perception and position accordingly, particularly for offers that are "exclusive" and may portray orchestras as inaccessible to the public.

- Implement a coherent approach driven by data, and measure the impact of your changes to learn from experience and find what works for you.
- Bring your marketing and development activities under one roof to enable a holistic analysis of each customer and better relationship management.
- Create pilot programs and test their efficacy versus traditional offers. Consider, for example, offering certain products only to a subset of consumers so that you can test the impact of different features on acquisition, renewal donation, donation, and other key metrics.
- Monitor possible cannibalization. Be on the lookout for erosion in your traditional products that may be caused by new offers. Finally, get input, support, and buy-in from your board and other leaders.

Engage with your patron pool to understand their preferences.



# **ACKNOWLEDGMENTS**

This work would not have been possible without the data and support provided by many members of the League of American Orchestras. The author is also grateful to the members of the study's Working Group, who guided this research, and her team of Oliver Wyman colleagues.

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Utah Symphony | Utah Opera

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# **APPENDIX**

Exhibit 1: A big thank you to the many orchestras who provided historical data and consumer survey contacts to support this work

#### **UNITED STATES**

#### ALASKA

Anchorage Symphony Orchestra

#### ALABAMA

Alabama Symphony Orchestra Huntsville Symphony Orchestra

#### **ARKANSAS**

Arkansas Symphony Orchestra

#### ARIZONA

Tucson Symphony Orchestra

#### **CALIFORNIA**

Los Angeles Chamber Orchestra Los Angeles Philharmonic Oakland East Bay Symphony, Chorus & Youth Orchestra Pacific Symphony Philharmonia Baroque Orchestra San Francisco Symphony Santa Rosa Symphony

#### COLORADO

Boulder Philharmonic Orchestra Colorado Springs Philharmonic

#### CONNECTICUT

Stamford Symphony

#### FLORIDA

Orlando Philharmonic Orchestra Pensacola Symphony Orchestra Tallahassee Symphony Orchestra

#### ILLINOIS

Chicago Symphony Orchestra Lake Forest Symphony

#### INDIANA

Fort Wayne Philharmonic Indianapolis Symphony Orchestra

#### IOWA

Des Moines Symphony

#### **KENTUCKY**

Lexington Philharmonic Orchestra

#### MARYLAND

Baltimore Symphony Orchestra

#### **MASSACHUSETTS**

Boston Baroque Boston Symphony Orchestra Orchestra of Indian Hill

#### MICHIGAN

Detroit Symphony Orchestra Grand Rapids Symphony Midland Symphony Orchestra Southwest Michigan Symphony Orchestra

#### **MINNESOTA**

Minnesota Orchestra
The Saint Paul Chamber Orchestra

#### MISSOLIRI

Kansas City Symphony St. Louis Symphony

#### NORTH CAROLINA

Asheville Symphony Charlotte Symphony North Carolina Symphony

#### **NEBRASKA**

Lincoln's Symphony Orchestra Omaha Symphony

#### **NEW JERSEY**

New Jersey Symphony Orchestra

#### **NEW YORK**

Albany Symphony Buffalo Philharmonic Orchestra New York Philharmonic

#### OHIO

Cincinnati Symphony Orchestra Lima Symphony Orchestra The Cleveland Orchestra

### OKLAHOMA

Tulsa Symphony Orchestra

#### **PENNSYLVANIA**

The Chamber Orchestra of Philadelphia The Philadelphia Orchestra Pittsburgh Symphony Orchestra

#### TENNESSEE

Knoxville Symphony Orchestra Memphis Symphony Orchestra Nashville Symphony

#### **TEXAS**

Dallas Symphony Orchestra Fort Worth Symphony Orchestra Houston Symphony Lubbock Symphony Orchestra Plano Symphony Orchestra

#### UTAH

Utah Symphony | Utah Opera

#### WASHINGTON

Seattle Symphony

#### WASHINGTON D.C.

National Symphony Orchestra

#### WISCONSIN

Milwaukee Symphony Orchestra

#### CANADA

National Arts Centre Orchestra

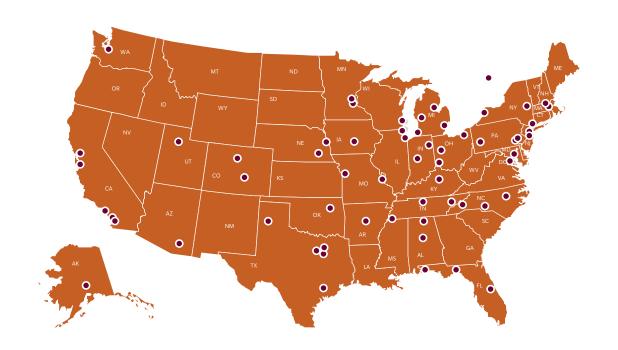


Exhibit 2: Orchestras have responded to eroding volumes by increasing per-ticket prices

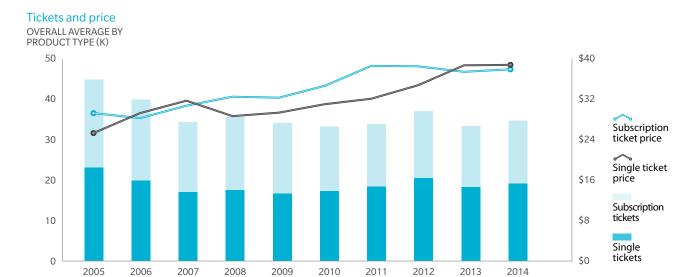


Exhibit 3: This decline has been concentrated in larger orchestras, with smaller orchestras showing some subscription revenue growth

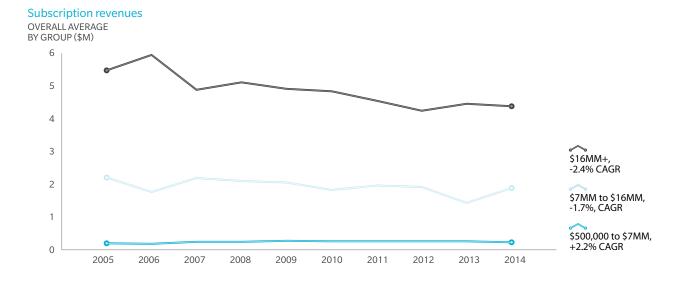


Exhibit 4: The revenue decline indicates that lower volumes are being only partially offset by price hikes

2004-2005 SEASON

\$814 K

3.8K

30 K

Total subscription revenue

**V** 15%

Total packages sold

**V** 24%

Total subscription tickets sold

**V** 13%

2013-2014 SEASON

\$694 K

2.9K

26 K

\$160

Revenue per package

**25**%

Revenue per subscription ticket

**33**%

\$200

\$38

#### **EASY ENTRY** PERSONAL OFFER COMMUNITY VIP EXPERIENCE EXPERIENCE Removing the Targeting content Sense of belonging Access to hassle from the to consumers or shared invitation-only subscription self-reported experience with events interests other consumers experience BASIC CUSTOMIZED PERSONALIZED **FULL PACKAGE** Services with Customized Relatively basic Premium services services customizable services based on tailored to fulfill (e.g., a gym elements to pick interests and different needs membership) and choose preferences **BRAND LICENSE PACKAGED GIFTS** LIMITED EDITION CONTENT Products available Light-hearted Rare, celebrity-GOODS Curated content for purchase gestures for a endorsed, or options for the milestone in the limited-in-quantity consumer to consumer lifetime editions pick from More related to core product **CORE CONTENT SUPPLEMENTS MULTI BUNDLES PREMIUM** Exclusive content Current content in Current and Subscription to CONTENT traditional and/or archival content other products in or priority access to digital format addition to the existing content supplemental to the basic offerings target product More More transactional relational

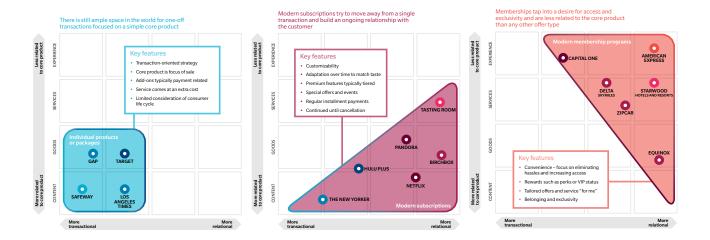


Exhibit 6: Orchestra products are primarily transactional, so there is room to grow into other benefit territories

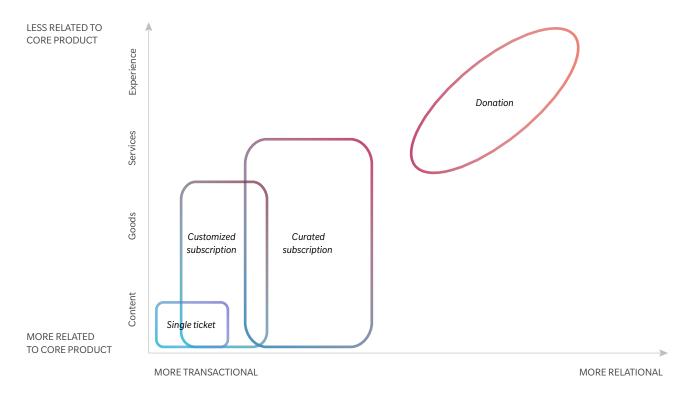


Exhibit 7: The 31% of the population who are Millennials are a promising segment; but they need different outreach not discounting

# Price sensitivity by age cohort Uptake versus revenue

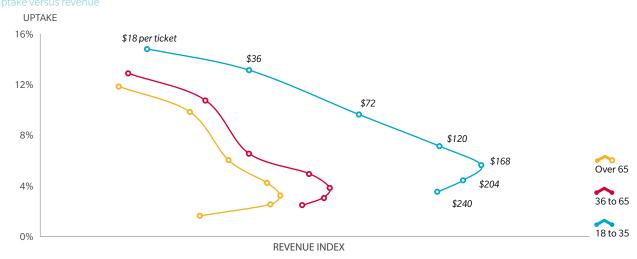


Exhibit 8: Orchestras should diversify available combinations of package size and customizability to maximize revenue potential

# Performance of various product mixes Uptake versus revenue in constant-price world

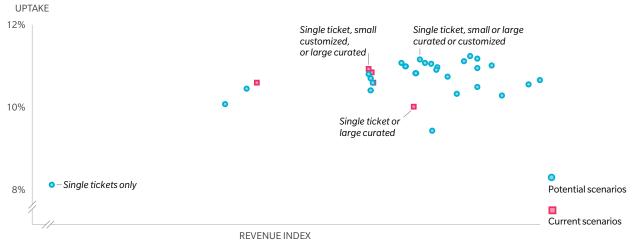


Exhibit 9: Orchestras should take measures to reduce sticker shock and increase convenience and flexibility

## Ticket bundle offer price impact Uptake versus revenue

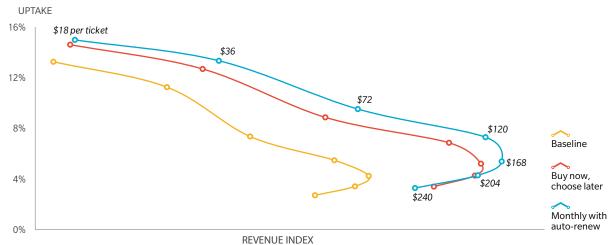


Exhibit 10: Orchestras should create programs that appeal to the desire for belonging and exclusivity

# Membership offer price impact Uptake versus revenue

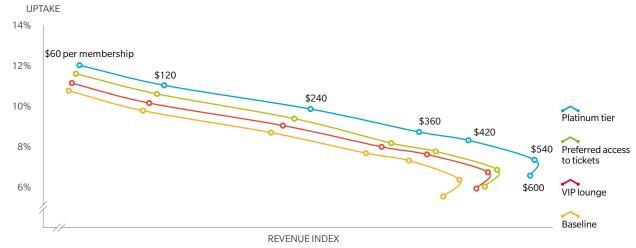
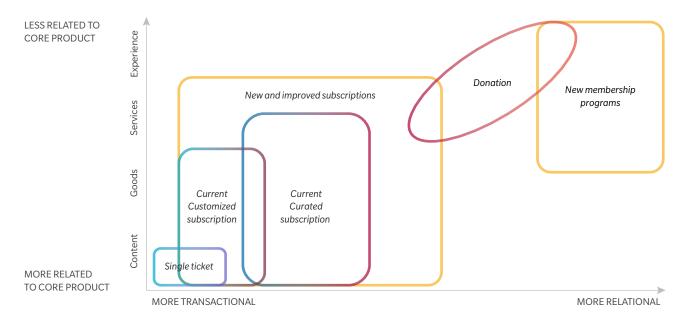


Exhibit 11: The recommended solutions occupy more benefit territories, allowing patrons to select their ideal product combination



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