

**Audience Demographic Research Review
December 10, 2009**

Introduction

The subject of audiences and their behavior has generated decades of vigorous debate among orchestra stakeholders. Who is our audience? How have they been changing? Are they older than they used to be? What age groups are most receptive to attending our concerts? The search for answers to these questions has become increasingly critical for orchestras facing ever tougher competition for consumers' attention and resources. In recent years, the challenge has been compounded by dramatic cultural shifts that are affecting audience participation.

Much of the research conducted around audiences has focused on understanding attitudes and behaviors of orchestra audiences. For example, Knight Foundation's *Classical Music Consumer Segmentation* and WolfBrown's *Ticket Buyer Segmentation Study (Philadelphia Orchestra)* examined patrons' music and concert expectations and preferences by dividing the audience into meaningful attitudinal segments. Other works, such as the League's *Audience Motivation Study*, uncovered many of the underlying lifestyle needs and motivations by creating a behavioral segmentation.

While such analyses have added significant knowledge to the field, there remained a knowledge gap around long-term demographic trends in orchestra audiences (e.g., number of people attending concerts, participation rates) and the impact of U.S. demographic momentum (e.g., shifts in populations). The League of American Orchestras, through its Research Advisory Council, asked a team from McKinsey & Company to collect and analyze existing demographic audience participation data and trends with a focus on the following objectives:

- Explain how demographic momentum may impact audiences in the future
- Increase understanding of today's digital media landscape and identify opportunities
- Identify knowledge gaps to help shape the League's future research agenda

This report focuses on findings and resulting recommendations for the League. It is organized into five sections:

- I. Executive summary**
- II. Methodology**
- III. Current trends in classical music participation and challenges faced by orchestras**

IV. Potential impact on audiences if trends continue

V. Recommended priority initiatives and research areas for the League

It is important to keep three things in mind in reviewing this research:

The findings are **descriptive, not diagnostic**, so more work will be necessary to understand the factors underlying the findings.

The data represent **national, aggregated trends**, and therefore will not hold true for every orchestra. There will be outliers, as well as regional variation around the country.

These results, while challenging, also seem to **suggest the enduring strength and vitality of our art form**. The high level of interest in classical music performances online and through electronic media is particularly notable, as is a significant rise in the percentage of people playing classic music themselves. The findings in this *Research Review* raise both serious concerns and new opportunities for orchestras. They merit close attention from all who are concerned about the future of orchestras in America. The League believes that these developments represent more than marketing challenges. They point to a need for orchestras to think more creatively about their roles in a culture of changing expectations around the meaning of participation.

Other industries, from bookstores to museums to movie theaters to live sports, also are experiencing shifts in audience participation. How are they responding? What can we learn from them? Which orchestras are experimenting with new approaches to audience? How are they tracking results? These are some of the questions that are raised by this research.

The League will be using multiple channels, including online forums, to communicate the findings and to stimulate conversation. We will bring forward examples from beyond our field that can help orchestras identify potential next steps. We encourage orchestras to absorb this information, to ask questions, and to share their own experiences with the League and with each other. The more information we have, the easier it will be for all to see that our field is serious about claiming a strong place in the culture of 21st century America.

Jesse Rosen
President and CEO



Implications of demographic and participation trends on orchestra audiences

I. Executive Summary

Orchestras have many opportunities to reengage audiences and ultimately increase attendance. Given the environment today, orchestras should pursue these opportunities aggressively.

The live classical music audience in the United States is declining across three metrics – participation rate, unique audience and attendance – as a result of demographic and participation trends. Overall classical music participation rates have consistently declined between 1982 and 2008, from 12.9% to 9.3%. Unique audiences for classical music declined by 13%, or 3.3 million people, between 2002 and 2008. Paid attendance also declined by 8% between 2002 and 2007. Furthermore, losses occurred in nearly every generational cohort.

Additional analysis demonstrates that participation rates tend to decline between subsequent generations, as well as within each generation as they age. This finding challenges the widely accepted belief that people consume more classical music as they enter the “core audience” segment (e.g., age 45+).

Orchestras have developed many innovative initiatives to attract and retain their audience. Nonetheless, they still face several challenges, including difficulty in defining and prioritizing target segments, lack of visibility into drivers of audience attrition, and little clarity on the best ways to reach audiences given the fragmented media landscape and proliferation of digital media. Adding to the complexity, music consumption has also increasingly shifted to digital, changing the economics of the industry and contributing to a 42% decline in classical retail sales.

If recent participation trends remain unaddressed, the audience for live classical music could decline by an additional 2.7 million people, or 14%, by 2018, as a result of projected trends in demographic momentum.

The League is uniquely positioned to support the field by undertaking centralized initiatives and conducting industry research. Recommended initiatives include: (1) collecting/purchasing unique audience data; (2) providing centralized customer lifetime value (CLV) tools and compiling demographic-based CLV industry benchmarks; and (3) developing centralized digital platforms and knowledge to leverage scale, align efforts and share industry best practices. Recommended research areas include:

(1) understanding effective tactics to engage the “aging patron” (Silents/Greats); (2) understanding how to “win back” disengaged Boomers and shift loyal Boomers to leaders and contributors; (3) understanding the drivers / inhibitors of classical music attendance for Generation X; (4) understanding behavior of Generation Y and how to develop their awareness about classical music; and (5) developing a more comprehensive understanding of Hispanic audiences.

II. Methodology

This document reflects findings based on two activities:

- Analyzing participation rates and unique audience trends, using survey data from the National Endowment for the Arts and Experian Simmons, to determine the implications of demographic momentum for live classical music
- Analyzing trends in digital media using data from Experian Simmons, Nielsen, Veronis Suhler Stevenson, and the McKinsey iConsumer survey

Data Sources

This study utilizes existing research and multiple data sources to provide a fact base for historical industry trends and current marketing knowledge, which were then used to perform forecasts and identify opportunities for orchestras and the League. Live classical music unique audience and attendance are used as indicators of symphony orchestra attendance. These sources are the most valid proxies for orchestra audience size for two reasons: first, long-term, longitudinal studies with comprehensive demographic information specific to symphony orchestra audiences are not available, thus making classical music audience (from NEA and Experian Simmons) the best available indicator.

Second, while the definitions for classical music in these surveys (provided below) could include forms other than symphony orchestras (e.g., choral, chamber, pops), it is not likely to affect the directional results of the analysis, though trends may be slightly less extreme. Estimates based on best-available data suggest that symphony orchestras represent 50-70% of total classical music attendances, and thus is representative of overall orchestra trends¹. In most cases, other genres such as opera and musicals have been captured under different categories (e.g., “theater arts”).

¹ Range calculated by taking total attendances based on OSR data divided by range of implied attendances from NEA and Simmons unique audience estimates



League OSR data was used to measure orchestra attendance. With reasonable assumptions about average frequency of attendance, trends suggested by the OSR data can be reconciled with those from NEA and Simmons data.

For historical analyses, NEA data was primarily used since it was available since 1982. However, for historical analyses on racial / ethnic segments, Simmons was used due to its higher sampling of minority segments.

For projections, Simmons data was used because it was available in 2007, allowing forecasts to correct for the impact of economic conditions on 2008 data.

Trends in overall symphony orchestra ticket sales were provided by the League of American Orchestras through its annual Orchestra Statistical Report.

The National Endowment for the Arts (“NEA”) – Participation in the Arts Survey

The NEA arts participation survey is a government-sponsored survey of public participation in the arts for the U.S. adult population. Every five to ten years, the study measures audiences for seven benchmarked performing arts forms, including classical music. The most recent survey, from 2008, had a sample size of approximately 18,000 adults (over 10,000 households represented), with an overall response rate of 82%. Data from 1982, 1992, 2002 and 2008 surveys were used in this report to determine historical trends and projections. The 2008 data captured the twelve months ending May 2008, and thus likely captures some of the impact of the economic recession, which began in December 2007 based on consensus economist views.

Survey question: “Attended at least one non-elementary or high school classical music performance such as symphony, chamber or choral music during the last 12 months”

Other categories surveyed: Jazz, Latin/Spanish/Salsa music, opera, musical stage play, nonmusical stage play, ballet, live dance

NOTE: “Non-elementary or high school” language was not included in the 1982 survey

SOURCE: National Endowment for the Arts

Experian Simmons (“Simmons”) – National Consumer Survey

The Simmons consumer survey gathers information annually about consumer lifestyles, media habits, and product / brand preferences of the U.S. adult population. Simmons is widely used by consumer and media organizations and is accredited by the Media Rating Council. The most recent survey, from 2008, had a sample size of approximately 25,000 respondents, with a household response rate of 21%. The Simmons National Hispanic Consumer Study was conducted in tandem, resulting in the sampling of just over 7,600 Hispanics. Annual data was used from 2003 through 2007 to identify recent trends to compare with those identified using NEA data. Data from 2003 are used based on availability and consistency of collection methodology. Data from 2007 are used because 2008 data were captured through December 2008, and thus reflect effects from recessionary economic conditions.

Survey question: “Attended at least one professional classical music concert by nationally or regionally known performers or groups in the last 12 months”

Other categories surveyed: Country, rock / pop, comedy, live theater, dance

SOURCE: Experian Simmons

Simmons is a valuable data source for trends in live classical music audiences for several reasons. First, it allows tracking and analysis of more recent trends because data is collected on an annual basis, compared to five or ten year periods for NEA surveys. Second, Simmons samples a much larger number of Hispanics, allowing for more statistically significant perspectives on Hispanic trends. Third, participation rate measurements and trends from NEA and Simmons are quite similar (Exhibit 1 and 2), validating classical music audience trends.

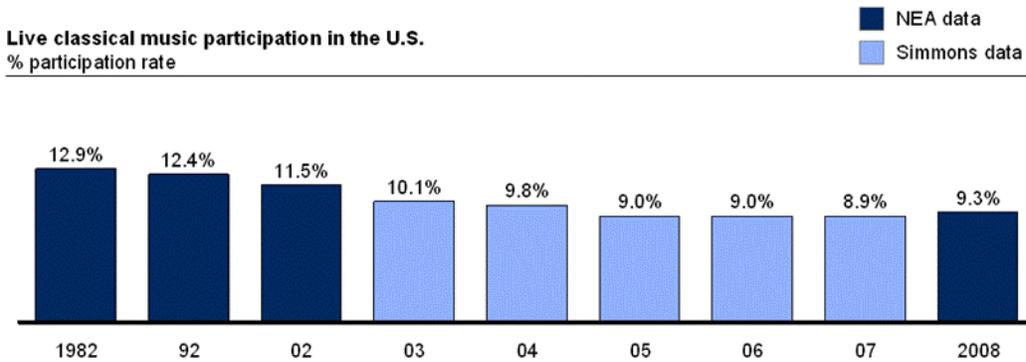
Exhibit 1

Comparison of NEA and Simmons data				
Participation rates by generation ¹				
Generation	2002 NEA	2003 Simmons	2008 NEA	2008 Simmons
Silents / Greats	12.1%	12.1%	11.0%	13.0%
Early boomers	16.3%	11.7%	11.8%	9.7%
Late boomers	11.5%	9.4%	10.1%	7.3%
Generation X	9.4%	9.4%	7.9%	6.0%
Generation Y	7.5%	7.5%	7.0%	6.8%
Overall	11.5%	10.1%	9.3%	8.1%

¹ Generational bucketing may differ slightly by source based on data availability

SOURCE: National Endowment for the Arts, Experian Simmons, McKinsey analysis

Exhibit 2



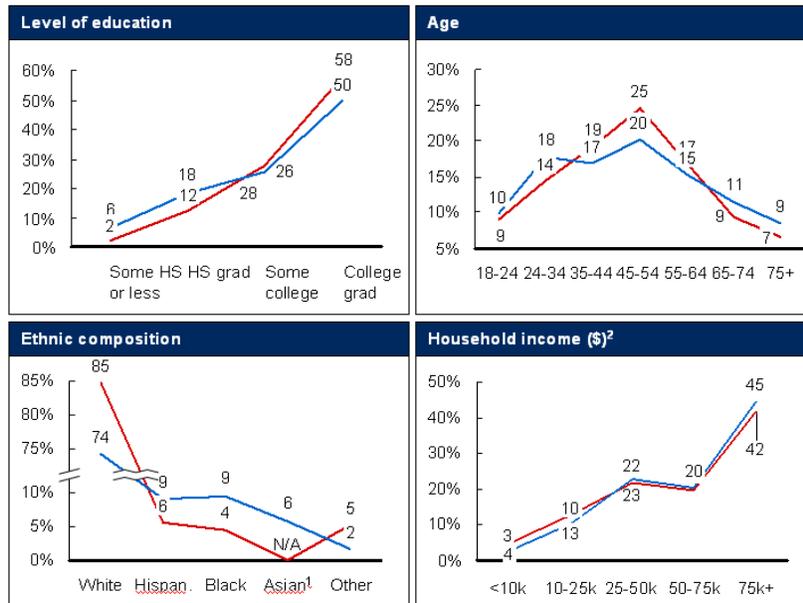
SOURCE: National Endowment for the Arts, Experian Simmons

The live classical music audience also was similar in demographics (e.g., education, age, ethnicity, household income) across the two data sources. Significant differences in ethnic composition is likely due to the larger sampling of minorities in the Simmons survey (Exhibit 3).

Exhibit 3

2002 / 2003 Classical music audience demographics
% of audience

— Simmons 2003
— NEA 2002



SOURCE: National Endowment for the Arts, Experian Simmons, McKinsey analysis

League of American Orchestras – Orchestra Statistical Reports (“OSR”)

OSR data is compiled by the League from an annual survey sent to all professional orchestra members, representing approximately 625 orchestras. About 200 orchestras respond per year, reflecting a response rate of approximately 30%. Since 49 of the largest 50 orchestras, and the majority of the next 50 submitted responses, the data captures a significant and representative sample. Reports track a diverse set of metrics such as revenue, expenses, contributions, paid attendance, total attendance, and concerts. The League extrapolates this data across the 1,200 orchestras which comprise the field (excluding youth and collegiate orchestras).

United States Census Bureau – Census and Current Population Survey

The U.S. Census is compiled every 10 years, with intercensus population estimates collected monthly in the Current Population Survey based on a sample of 60,000 households. Populations generally refer to the civilian resident population. The Bureau provides projections based on Census 2000 data, with estimates until 2050 using the cohort-component method. Projections were updated in 2008. Age and race / ethnicity were demographic focuses, as they reflect the most significant changes in population composition over the next ten years compared to other demographic metrics (e.g., composition of educational attainment, income).

McKinsey – 2008 iConsumer survey

The McKinsey iConsumer survey is a comprehensive cross-experience survey of digital consumer behaviors, tracking US internet users between the ages of 13-64, with nearly 21,000 respondents. The survey was administered to targeted numbers of pre-defined demographic segments to be representative of the population in terms of age, gender, and employment status.

Nielsen – A2/M2 Three Screen Report

Nielsen is a premiere market research firm that monitors consumer habits in the retail and media arenas. Nielsen is well known for their media measurement and research subsidiaries. The Nielsen Anywhere Anytime Media Measurement (A2/M2) Three Screen Report measures television, internet and mobile usage in the U.S.

Veronis Suhler Stevenson – Communications Industry Forecast and Investment Considerations for the Communications Industry

Veronis (or VSS) provides data on consumer usage (e.g., time spent) trends of both traditional and digital media. The VSS Communications Industry Forecast and Investment Considerations for the Communications Industry provide detailed analyses of spending patterns, trends and industry drivers for all major segments of the Media industry and is the industry standard for budgeting, forecasting and benchmarking the Media industry. For their forecasts, VSS compiles and analyzes data from over 40 trusted sources in the Media industry, including PQ Media, Ball State University, comScore, Nielsen, and Recording Industry Association of America.

Terminology

A few terms are used consistently throughout this document. Definitions are as follows:

Participation rate: Defined as the percentage of a particular audience (e.g., overall adult population, 29-33 age segment, Hispanics) attending live classical concerts at least once in the past 12 months.

Participation rate is measured by NEA and Simmons by dividing the number of people who responded that they attended a live classical music concert by the total number of respondents.

Unique audience: Defined as the number of unique individuals who attended a live classical music concert in the past 12 months, regardless of frequency. Unique audience is determined by multiplying participation rates as measured by NEA and Simmons surveys by population estimates from the U.S. Census Bureau.

Paid and total attendance: OSR measures total and paid attendance. Attendance refers to total people attending concerts, irrespective of unique visits (e.g., if a person attends twice, he/she counts as two attendees). Paid attendance includes all concerts for which concert revenue was collected from paying attendees. This includes regular season, pops season, summer season, tour, community engagement, educational, residency, chamber, ensemble, family, festival, and relevant choral/ballet/opera concerts (e.g., contracted concerts). Total attendance includes paid attendance as well as concerts for which concert revenue was not collected (e.g., free concerts, complimentary tickets, ensembles playing in local schools on a pro-bono basis).

III. Current Trends In Classical Music Participation And Challenges Faced By Orchestras

1. Classical music participation and unique audience trends are troubling, but also highlight real areas of opportunity for orchestras to grow audience

The overall classical music participation rate of the U.S. adult population has decreased consistently over the past 25 years. Despite those declines, unique audiences for classical music grew through 2002 as a result of adult population growth in key segments (e.g., Generation X). However, since 2002, the unique audience for live classical music has declined by 13% as population growth is no longer enough to counter declining participation rates. Moreover, the trends for each generation suggest that each subsequent generation participates less than previous generations (e.g., Boomers participate less than Silents at the same age) and participation declines within generations as they age (e.g., Boomers in their 50s participate less than they did when they were in their 40s). As a consequence, the average age of the classical music unique audience has increased substantially faster than the U.S. adult population.

The unique audience for live classical music declined by 13% since 2002

The unique audience for live classical music in the U.S. today is approximately 21 million people. This represents a 9.3% overall participation rate among the U.S. adult population². From 2002-2008, the unique audience for live classical music declined by 13%, or 3.3 million people. Comparatively, the unique audience for live concerts in general (i.e., rock, pop, country, classical) was relatively flat over a similar time period (2003 and 2007), declining by 0.6%.

² Adult population refers to the civilian resident population that is 18 years old or older

Exhibit 4

Since trends in participation rates have a strong relationship with generational cohorts, the following analysis examines participation from a generational lens.

Generational cohorts¹	Birth years	Age (2008)	2008 live classical audience (millions)	2008 population (millions)
Greats	1901-1924	84-107	0.5 ²	5.4 ²
Early silents	1925-1934	74-83	1.5 ³	14.6 ³
Late silents	1935-1944	64-73	2.6	21.3
Early boomers	1945-1954	54-63	4.1	35.2
Late boomers	1955-1964	44-53	4.5	44.6
Gen X	1965-1981	29-43	4.8	61.4
Gen Y	1982-2000	8-28	3.2 ⁴	46.9 ⁴

1 Generation ages (e.g., Gen X, Gen Y) have been adjusted slightly based on data availability / methodology

2 Reflects 85+ year old audience based on data availability

3 Reflects 74-84 year old audience based on data availability

4 Reflects adult (18+) Gen Yers

SOURCE: National Endowment for the Arts, US Census Bureau, McKinsey analysis

From a demographic perspective, the analysis shows that each generation exhibits a very distinct behavior towards classical music attendance (see Exhibit 4 for descriptions of the generations). The composition of the live classical music audience in 2008 by generational cohort was 21% Silent/Great, 41% Baby Boomer, 23% Generation X, and 15% Generation Y. Losses have occurred in the live classical audience in nearly every generation since 2002 (Exhibit 5). Silents and Greats declined by 1.8 million people, driven by declines in the overall size of their populations due to aging. Baby Boomers and Generation X lost 3.2 million people, despite relatively flat population sizes overall. Generation Y gained 1.7 million people, which mostly reflects their entrance into the adult population rather than a broad increase in participation³.

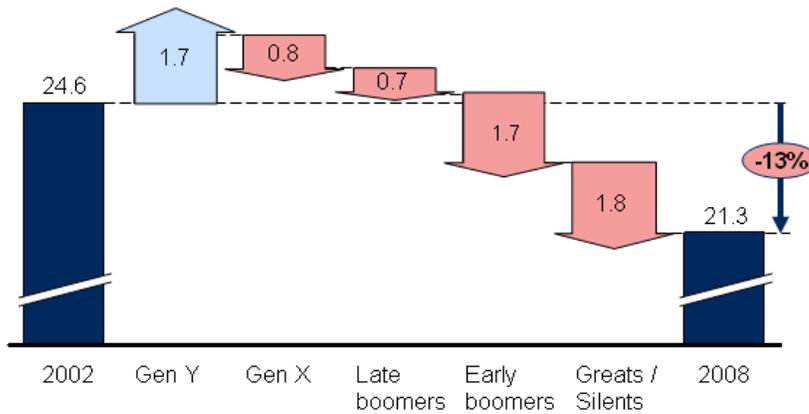
³ Surveys measure adult population rather than overall population

Exhibit 5

Classical music audience trends, 2002 to 2008 (NEA data)

HISTORICAL

Millions of people



% participation rate annualized growth

NEA 2002-2008	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
-1.3%	-2.9%	-2.2%	-5.2%	-1.5%	-3.5%

Simmons 2003-2008 ¹	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
-0.4%	-5.7%	-3.5%	-0.8%	-0.1%	-3.1%

2003 to 2008 Simmons unique audience trend (millions of people)¹

2003	2004	2005	2006	2007	2008
22.0	+1.6	-1.4	-0.7	-0.3	-1.2
					20.1

¹ 2008 data extrapolated from 2007 to adjust for impact of 2008 economic conditions

SOURCE: National Endowment for the Arts, Experian Simmons, McKinsey analysis

Historical trends between NEA and Simmons are similar directionally, but the NEA data suggests a larger decline, likely for two reasons: First, NEA measures the trend over a six year period, while Simmons measures only a four year piece of that period. Second, NEA includes 2008 data which captures the beginning of the economic recession. Simmons data from 2003 to 2007 is likely more representative of systemic trends, as the 2007 data largely does not include the impact of recessionary economic conditions. Thus, the projections which follow later in this document will be based on growth rates associated with 2003 to 2007 Simmons trends.

Attendance refers to the total people attending all concerts (i.e., tickets), irrespective of unique attendees. On the other hand, unique audience is defined as the number of unique individuals who attend a live classical music concert, regardless of frequency. The link between the two measurements is average frequency of attendance (attendance = unique audience x average frequency).

Data reported to the League suggest that paid attendance declined at a 1.7% annualized rate and total attendance declined by a 1.0% annualized rate from 2002 to 2007, compared to a 2.4% annualized rate of decline in unique audience between 2002 and 2008 according to NEA. These sources can be reconciled by assuming slight increases in average frequency.

Adjusting for outliers, the NEA data suggest average frequency of attendance increased from 2.5 to 2.7 between 2002 and 2008. This implies an annualized decline in total attendances of 1.3-2.2% for the NEA data. This range is similar to rates of decline in the OSR attendance data. Thus, attendance trends from the OSR can be reconciled with the NEA unique audience trend by assuming that average frequency of attendance has increased slightly since 2002. This ultimately suggests that losses in unique audience could have been masked by slight increases in overall attendance frequency.

NOTE: Overall average attendance in the NEA data suggests a decline from 3.1 to 2.9 attendances between 2002 and 2008. However, this includes outliers caused by a few respondents (e.g., those saying they attended 21-156 concerts per year), skewing overall average attendance. Capping attendances at between 12 to 20 attendances represents 98-99% of surveyed responses in 2002 and 2008

NOTE: Paid attendance trends are likely to be a more valid comparison to unique audience trends for two reasons. First, the tracking methodology for paid attendance (e.g., ticket stubs or seats filled) is more robust than that of total audience (e.g., manual counts, approximations of audience density for free outdoor concerts). Second, total attendance also includes educational concerts (e.g., ensembles of a few musicians playing at local elementary schools), which are not relevant for the adult classical music audience

SOURCE: National Endowment for the Arts, League of American Orchestras, McKinsey analysis

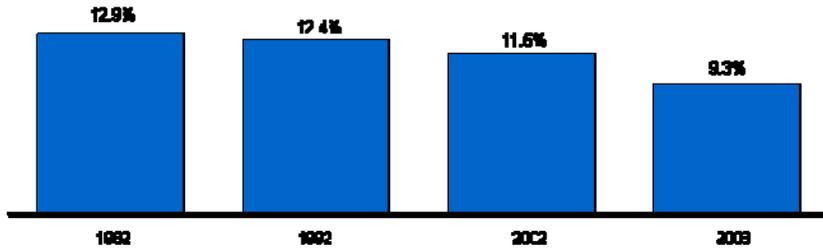
Participation rates have consistently declined over the past 25 years, though population growth has masked absolute declines in audience size between 1982 and 2002

The overall participation rate for the U.S. adult population decreased from 12.9% to 11.5% between 1982 and 2002. However, the unique audience actually increased by 2.8 million people on an absolute basis over the same period. Further analysis suggests that demographic momentum – i.e., the population attaining adulthood during this period – contributed more to the increase than a general increase in affinity for live classical music. Between 1982 and 2002, Generation Xers entering the adult population compensated for declines among the Great and Silent generations. However, overall growth in the U.S. adult population (27%) outpaced growth in unique audience size (13%), and thus resulted in declining participation rates.

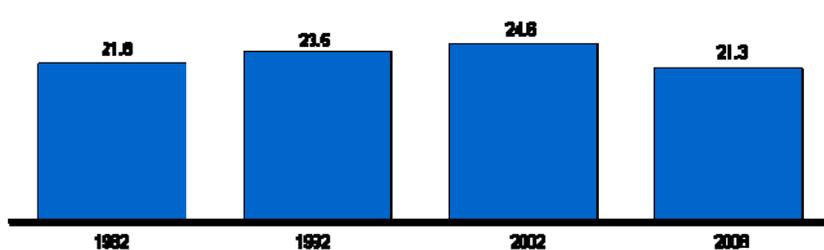
Since 2002, the rate of decline in participation rates has accelerated, outpacing adult population growth. This has resulted in declines in the size of the unique audience.

Exhibit 6

Classical music participation in the U.S.
% participation rate



Classical music participation in the U.S.
Millions of people



SOURCE: National Endowment for the Arts, McKinsey analysis

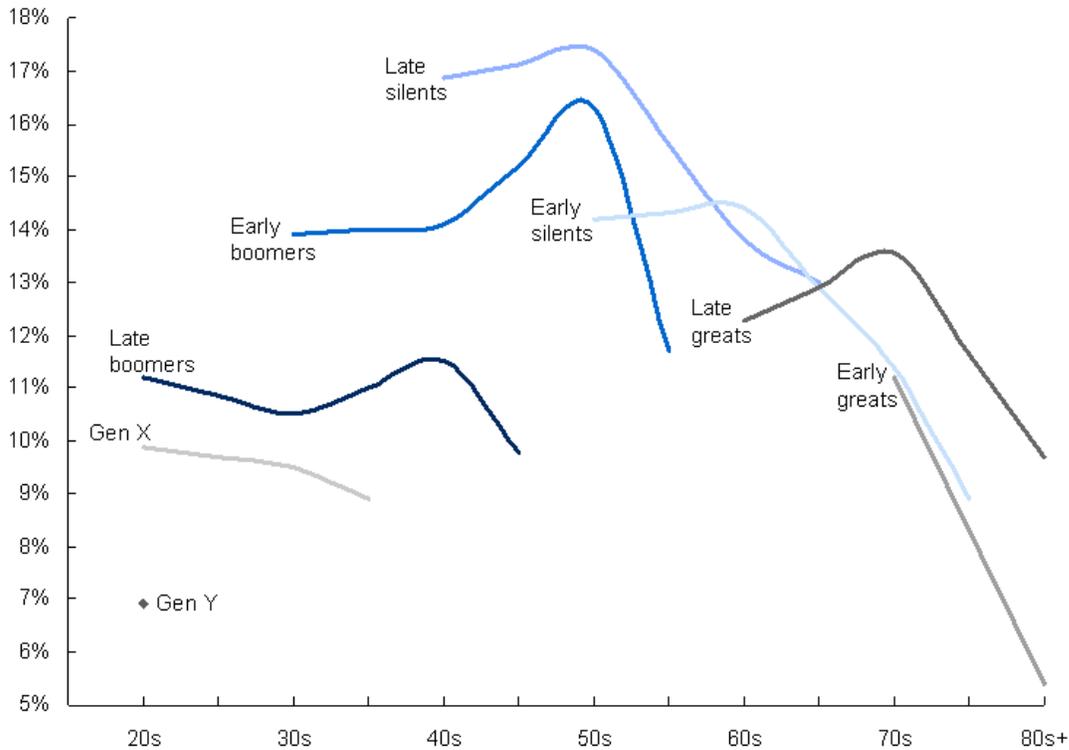
Participation rates have generally declined between and within generational cohorts since 1982

Participation rates of each generational cohort can be examined from two perspectives: first, comparing participation rates *between* generations when they were the same age (e.g., participation rates between Boomers and Generation X in their 20s), and second, comparing participation rates *within* generations (e.g., participation rates within Boomers as they age). Both perspectives provide insight into long-term trends associated with generational participation rates (Exhibit 7).

1. **Between generations:** At a given age, participation rates tend to decline for each subsequent generation. For example, Gen Xers in their 30s are participating less (9%) than Late Boomers when they were the same age (11%)
2. **Within generations:** Participation rates tend to decline within each generation as they age. For example, Late Silents in their 60s are participating less (14%) than when they were in their 40s (17%).

Exhibit 7

Population attending classical performances
% participation rates by age and generation



SOURCE: National Endowment for the Arts, McKinsey analysis

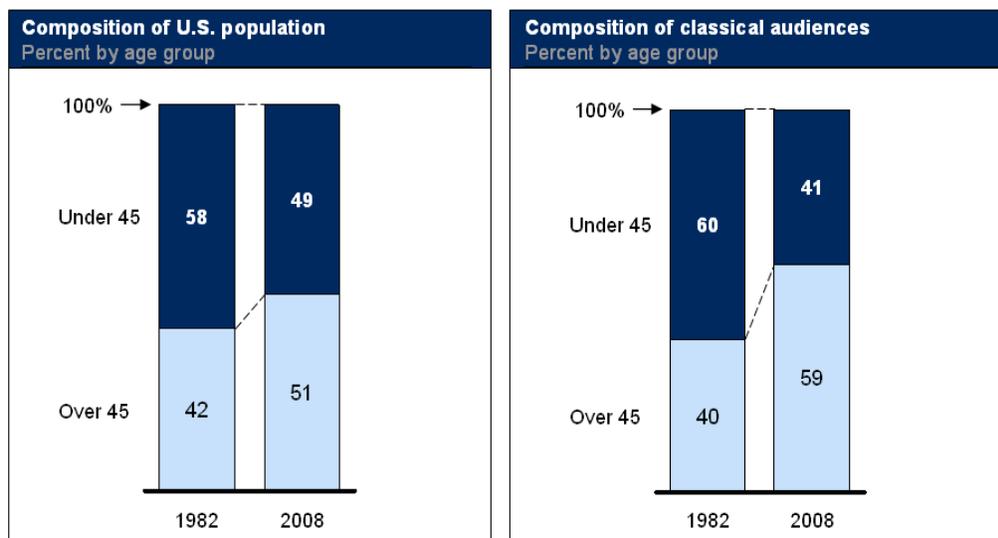
These trends hold up in general, though there are some exceptions. For example, participation increased for the Late Greats as they transitioned from their 60s to 70s. However, this is likely related to recessionary economic conditions in the 1982 data, which depressed participation rates in the year when Greats were in their 60s.

Many orchestra marketing directors have noted that they have seen an increase in attendance by Baby Boomer and Silent cohorts, an observation which runs counter to losses in unique Boomer and Silent audiences since 2002. These trends can potentially be reconciled by looking at frequency of attendance. Unique audience data suggests that frequency of attendance among Boomers and Late Silents has increased consistently since 1982, potentially masking losses in unique audience.

The audience for live classical music is “graying” faster than the overall population

The audience for live classical music has been aging at a faster rate than the overall U.S. population. Between 1982 and 2008, the portion of the population over the age of 45 years old has increased from 40% to 59% for the live classical music audience, compared to 42% to 51% for the overall U.S. adult population over the same period (Exhibit 8).

Exhibit 8



SOURCE: National Endowment for the Arts, McKinsey analysis

This “graying” effect is due to two main factors: First, due to the sheer size of the Baby Boomer population, as they shifted from the under-45 age group to the over-45 age group, they caused “graying” of both the U.S. population and the classical music audience. This effect is compounded by the second factor – as each generation demonstrates lower participation rates than preceding generations, the Boomers and Silents in the over-45 age group over-index for classical music attendance compared to those generations in the under-45 age groups.

2. Orchestras face unique challenges in addressing the participation trends

Most orchestras have successfully created a broad portfolio of marketing initiatives for audience cultivation and retention. However, unique audiences continue to decline. Going forward, orchestras are challenged to develop new, innovative strategies to attract new audiences and engage current audiences further.

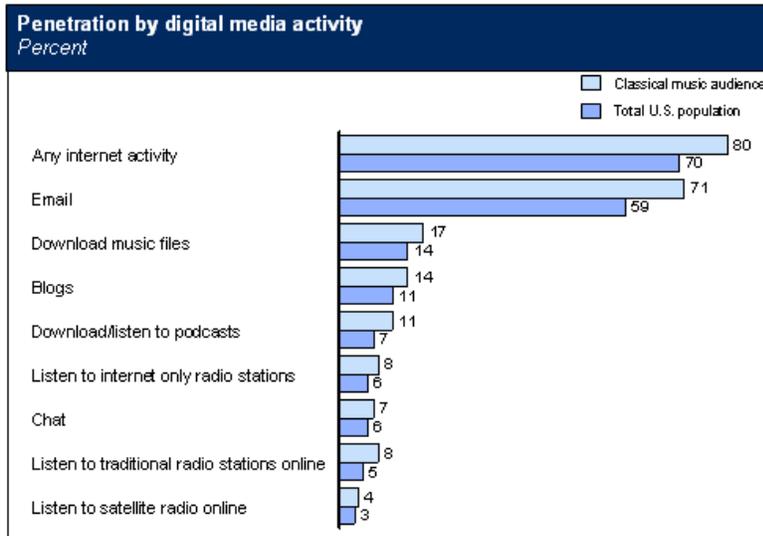
Orchestras currently leverage a number of marketing initiatives that have proven to be effective in engaging audiences. To name a few, initiatives such as traditional advertising, direct mail, education, community engagement, loyalty programs, and festivals have become the “bread and butter” in marketing director repertoires. Other initiatives have received notable publicity for their innovation and success for certain organizations. For example, some orchestras have combined their marketing and development departments into a single unified organization, enabling more consistent messaging, broader reach, and leveraged scale from the overlap between these increasingly associated functions. However, despite the breadth of their marketing initiatives, orchestras are struggling to retain current audiences and attract new ones.

3. In addition, shifts in consumer media consumption are making it more difficult to efficiently reach orchestra audiences

Since the mid 1990s, overall media consumption time and money has shifted from traditional to digital platforms. Music consumption also shifted to digital platforms in both time and dollar expenditure. These changes in consumer behavior have fragmented the media landscape and exacerbated the challenges that marketing directors face in seeking to engage audiences.

Consumers are increasingly shifting time and money to digital platforms (e.g., online, personal media players, mobile phones) and fragmenting their time across many more media sources. Classical music audiences, in particular, are adopting digital more rapidly than the overall US population (See Exhibit 9). As media fragmentation makes it more difficult to engage audiences and more music options vie for consumer time and dollars, marketing directors will need to expand their traditional methods to reach audiences and expand their product / entertainment offerings to account for changes in consumer habits.

Exhibit 9



SOURCE: Experian Simmons

Media consumption is shifting from traditional to digital platforms

From 1995 to 2007, consumers increased the number of hours that they consumed all media from 58 hours/week to 64 hours/week, a +10% gain over the period. In addition, consumers have shifted from traditional channels (e.g., AM/FM radio, broadcast television, physical magazines and newspapers, and brochures/flyers), which are static and one-way, to digital channels (e.g., internet and mobile phones), which are dynamic and interactive. While TV still remains the dominant choice (Americans spend an average of five hours per day watching TV, while one hour per day on the internet, and almost 99% of video watched in the U.S. is still done on television), there is a shift toward digital media. Since 1995, annual declines in traditional channel usage have ranged from -34% (e.g., broadcast TV) to -4% (e.g., conventional magazines).

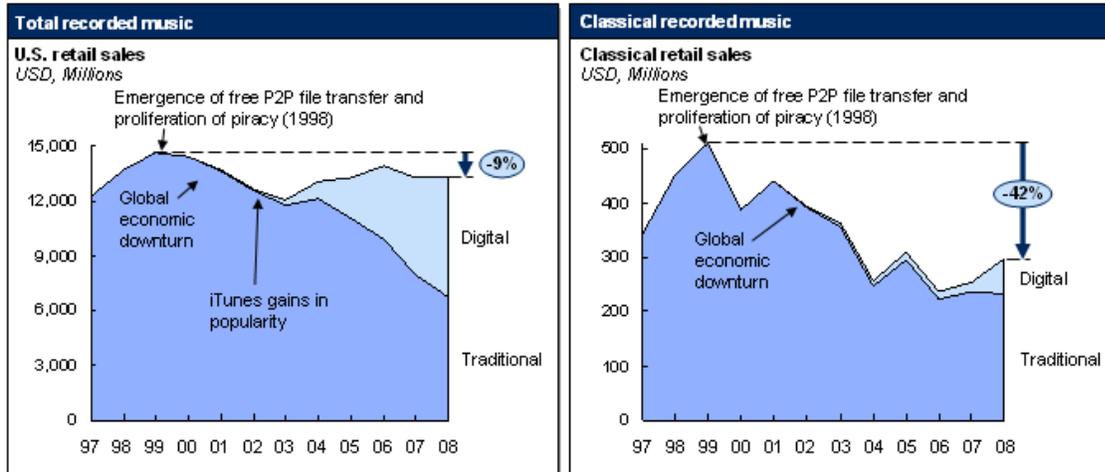
Meanwhile, digital channels have experienced substantial growth, with average annual growth rates of +50% (e.g., internet) and +39% (e.g., mobile). Today, 70% of the US population is online indicating the degree to which this shift to digital has taken hold.

Music consumption has also shifted to digital platforms

From a financial standpoint, consumers are purchasing less physical music today than 10 years ago. While digital music (e.g., MP3s) offset much of the loss in physical sales for the total recorded music

industry, classical recorded music did not see the same uptake of digital music. This caused losses in classical recorded sales to be more than 4x the losses in total recorded sales (See Exhibit 10).

Exhibit 10



SOURCE: Veronis Suhler Stevenson, RIAA

For the total music industry, a part of the reason that digital sales have not made up for losses in physical sales is that consumers are able to buy digital albums in entirety or on a per-song basis and the average digital music consumer buys just 1-2 songs from each album. This has had a very negative impact on the recorded music business model, as digital music has turned out to generate far less revenue for the music industry than traditional recorded music. Despite lower fixed and variable costs (e.g., savings from physical manufacturing and distribution), consumers would have to purchase ten to twelve individual digital songs to equal the revenue from just one traditional album.

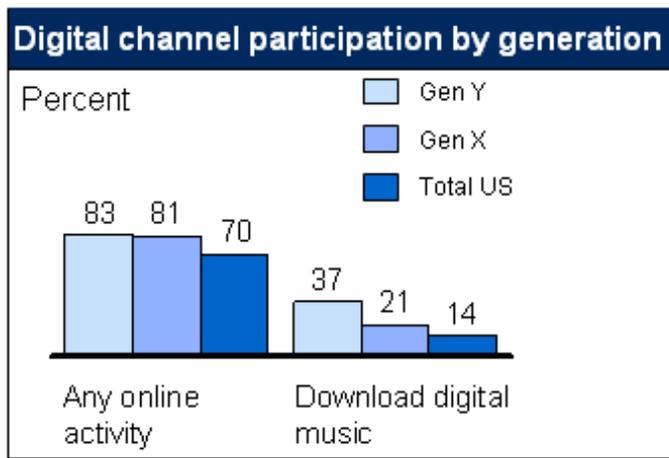
Nevertheless, with over a billion songs purchased digitally in 2008, it is clear that consumers are structurally shifting their ears and dollars to digital music and the music industry – classical and overall – will have to provide digital offerings for the consumers.

For time spent with music, consumers are still heavily using traditional formats and platforms (e.g., CDs, AM/FM radio), with 87% of consumer listening time allocated to these channels. However, hours spent on traditional music platforms are expected to decline 5% for AM/FM radio and 28% for CDs/cassettes, from 2007 to 2009, while digital music platforms are expected to increase between 24% (e.g., internet radio) and 67% (e.g., mobile downloads) over the same period. As consumer time spent with digital music

begins to rival and surpass time spent with traditional music, orchestras must be ever more present in these digital platforms to continue reaching audiences outside the concert hall.

Of particular interest, Gen X and Gen Y have adopted digital media platforms, overall and music-specific, more rapidly than the overall US population overall (See Exhibit 11). As these generations have lower participation rates than prior generations and thus less exposure to classical music, digital channels could serve as a needed conduit for orchestras to reach and educate them about classical music.

Exhibit 11



SOURCE: Experian Simmons

IV. Potential Impact On Audiences If Trends Continue

Without systemic intervention, the audience for live classical music is projected to decline by 14% by 2018

If recent trends in classical music participation rates continue unaddressed, the audience for live classical music could decline by a further 2.7 million people, or 14%, by 2018 due to demographic momentum (e.g., population growth, compositional shifts in the population) and changes in participation rates. The overall participation rate is projected to decline at a faster rate than in the past. This is due to the aging out of core cohorts (e.g., Silents and Baby Boomers), and the slower replacement rate among Generation Yers, who are participating at substantially lower rates than preceding generations. The largest projected loss is among the Silents, with a 2.8 million decline, as the overall size of that population continues to shrink rapidly. Losses among Baby Boomers and Gen Xers are projected to be 2.5 million people in total.

Gains among Generation Y are projected to be 2.5 million people, though this growth is still driven by the rest of the cohort attaining adulthood, rather than real increases in their participation rate (Exhibit 12).

Methodology

Projections for the live classical music audience are based on a combination of three factors:

- *Adult population growth as projected by the U.S. Census Bureau*
- *Shifts in the composition of age segments by race / ethnicity.* These factors were chosen because shifts in population composition for age and ethnic segments are projected to be more significant over the next 10 years as compared to other demographic factors (e.g., educational attainment)
- *Live classical music audience participation rate trends based on Simmons data between 2003 to 2007.* Data from 2008 was not included in historical trend calculations. Cyclical economic factors appear to have significantly affected participation rates, and thus including it would not be representative of structural trends in live classical music participation.

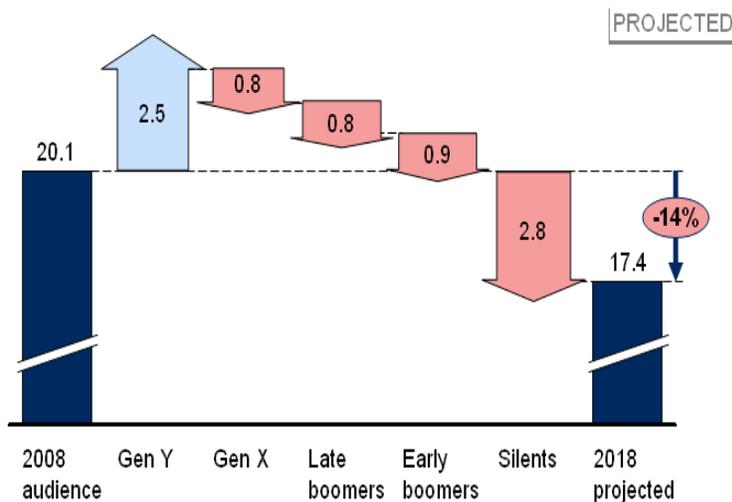
This methodology first uses recent participation rates *by cohort* as a baseline, thus capturing participation rate trends between generations (e.g., Generation X tends to participate less than Baby Boomers). Then, historical trends *among age segments* (e.g., 35-39) were applied to each cohort, thus capturing the impact of key life stage events (e.g., retirement for the 60-69 age segment).

Note: "Cohort" (e.g., Gen X) refers to a group of people who are tracked as they age throughout age segments. "Age segment" refers to an age grouping (e.g., 35-59), regardless of which cohort is in that grouping at a particular time.

Exhibit 12

Classical music audience projection, 2008 to 2018 (Simmons data)

Millions of people



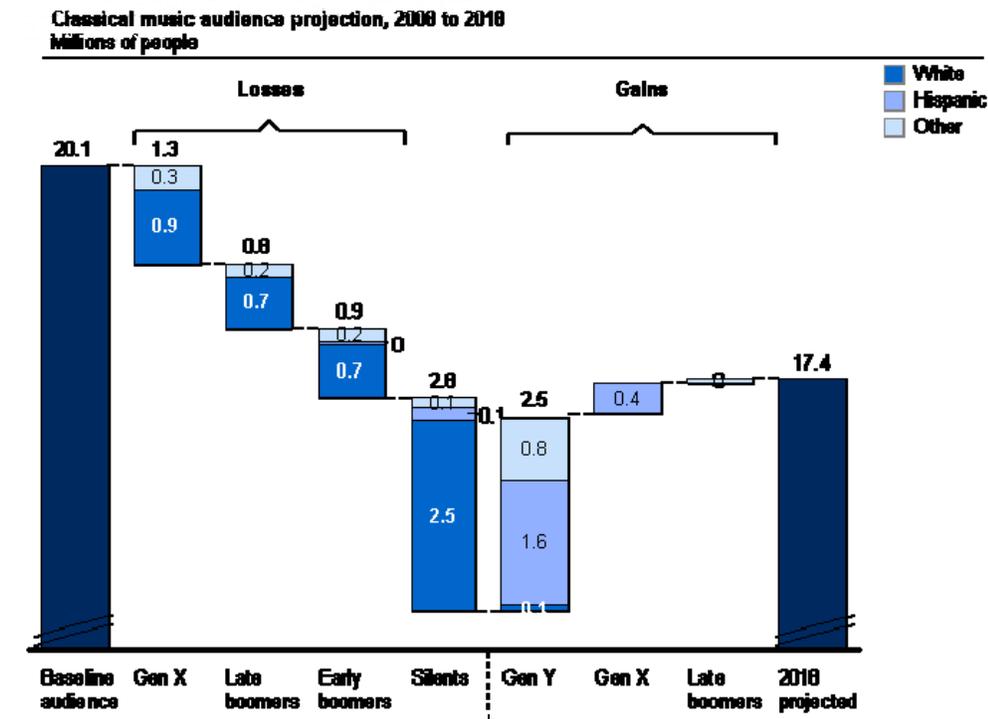
% participation rate annualized growth

-1.4% -2.2% -2.2% -1.5% -2.9% -2.5%

SOURCE: Experian Simmons, US Census Bureau, McKinsey analysis

From a race/ethnicity perspective, 83% of losses are projected to be among Whites, with more than half of these due to losses among Whites in the Silent generation. Non-White minority segments are projected to drive the vast majority of gains among generations, led by Gen X and Gen Y with Hispanics alone accounting for 42% of generational gains (Exhibit 13).

Exhibit 13



SOURCE: Experian Simmons, US Census Bureau, McKinsey analysis

Hispanics are potentially a positive story in Gen X and Y capture, with increases in audience expected in both generational cohorts.

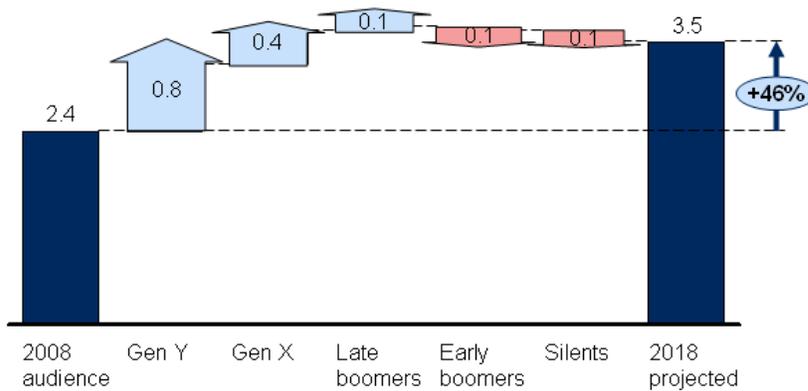
Projections suggest that among Hispanics, participation in live classical music will increase by 46%, from 2.4 million in 2008 to 3.5 million in 2018 (Exhibit 14). This is driven both by the 37% projected increase in the Hispanic adult population as well as the nearly 7% increase in participation rate (from 7.9% to 8.4%) over the same period. This suggests that Hispanics will increase their share of the total live classical audience from about 12% to 20% by 2018.

Exhibit 14

Hispanic classical music audience projection, 2008 to 2018

Millions of people

PROJECTED



% participation rate annualized growth

+0.1% +4.1% +0.7% -1.4% -8.8% +0.6%

SOURCE: Experian Simmons, US Census Bureau, McKinsey analysis

The base case projection reflects a 14% decline in unique audience by 2018. Several additional scenarios suggest that audience losses could range from -9% to -28% (Exhibit 15).

Scenario 1: The base case projection uses historical data between 2003 and 2007 to reflect structural trends, and excludes 2008 trends which are assumed to be exacerbated by cyclical economic forces. If trends from 2008, when the audience for live classical music declined by nearly 8% in a single year, turn out to be structural rather than cyclical (e.g., the audience does not “bounce back”), audience losses could be 28%, or 5.6 million people, by 2018.

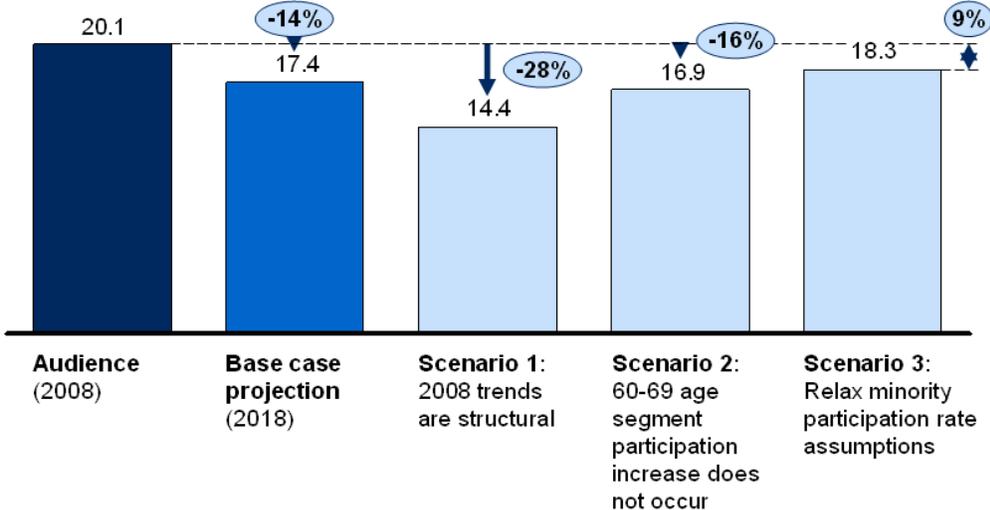
Scenario 2: The base case projection currently reflects a “bump up” in participation at 60-64 and 65-69 years old (depending on race / ethnic segment), which has been seen in the historical data over the last 5 years (likely due to retirement and “empty nest” effects). If orchestras are unable to continue to capture this “bump,” audience losses would be 16%, or 3.2 million people, by 2018.

Scenario 3: In the base case projection, a few sub-segments (e.g., 45-49 year old Hispanics) have experienced extremely high rates of historical growth. This reflects a structural increase in participation,

but at a rate that is unrealistic to assume will continue⁴. Thus, the base case projections cap non-White sub-segment participation rates at 14.3%, the second highest rate attained historically by the Hispanic segment. If this cap were increased to 18.3%, the highest rate attained historically by a non-White segment, audience losses would be 9% by 2018, or 1.8 million people, driven by additional increases in Hispanic segment participation.

Exhibit 15

Classical music audience projection scenarios
Millions of unique audience members



SOURCE: Experian Simmons, US Census Bureau, McKinsey analysis

⁴ Using the implied growth rates without a cap would lead to unreasonably high participation rates for certain segments (e.g., >30%).

V. Recommended Action Items And Research Agenda For The League

The League is uniquely positioned to support the field by undertaking centralized initiatives and conducting industry research. Given demographic trends, the League can assist orchestras in reversing declining audiences by focusing their efforts in the following areas:

1. Implementing key action items to be adopted by the field

- **Collect unique audience data as a part of the annual OSR and purchase Simmons classical music unique audience data** to more effectively measure audience momentum trends and assess the impact of initiatives in reversing the trend of declining audiences.
- **Provide centralized customer lifetime value (CLV) tools** by becoming a central support organization to orchestras and **compile demographic-based CLV benchmarks** to enable a shared understanding of overall demographic trends.
- **Develop centralized digital knowledge and platforms** to leverage scale and align efforts.

2. Investing in future research to address existing knowledge gaps across orchestras

- **Understand effective tactics to engage the “aging patron” (Silents/Greats)**
- **Understand how to “win back” disengaged Boomers and shift loyal Boomers to leaders and contributors**
- **Understand drivers and inhibitors of classical music attendance for Gen X**
- **Understand behavior of Gen Y and how to develop awareness about classical music**
- **Develop a more comprehensive understanding of Hispanic audiences**

Implementing key action items to be adopted by the field

- ***Collect unique audience data as a part of the annual OSR and purchase Simmons classical music unique audience data***

The League should leverage its annual OSR to collect additional data to measure unique audience so that it can inform whether orchestras should work to increase engagement with the current audience base, or acquire new audiences. Unique audience could be captured directly by using proxies such as unique subscribers, unique single ticket purchasers, or unique contributors. In addition, it could be estimated through indirect measurements (e.g., audience surveys). If this data is not available for the majority of orchestras, the League can work with a representative sample and extrapolate for the field. To ensure data integrity, the League should work with

orchestras in the next OSR cycle to identify and establish a standard set of definitions and methodologies for these metrics.

In addition, the League should purchase Simmons data to track classical music unique audience. Simmons is a valuable data source because data is collected on an annual basis (compared to five or ten year periods for NEA surveys), and it samples a large number of Hispanics (allowing for more statistically significant perspectives on Hispanic trends).

Comparing Simmons and OSR measurements for unique audience will enable the League to track orchestras audience trends and confidently extrapolate to all members (or the field). In addition, tracking these metrics would reduce reliance on broadly scoped, third-party surveys such as the NEA Participation in the Arts survey, which tracks the audience for live classical music in general, rather than for orchestras, and is only available every five years.

- ***Provide centralized CLV tools and compile demographic-based CLV benchmarks.***

The League could support orchestras in their understanding of the customer lifetime value (CLV) of audience segments in two ways: First, it could provide central support for orchestras in the initial stages of their own CLV implementation (e.g., design a toolkit, answer related questions, provide training) based on their own segmentation. Second, it could establish industry-wide CLV benchmarks based on demographic segments.

To provide central support, the League could create a “CLV 101 Initiative” with a near-term focus. Specifically, this initiative could include three main steps. First, the League should consider providing a dedicated resource (e.g., internal resource, contracted consultant or external marketing expert) to develop a comprehensive set of CLV tools and training materials that can be adapted for orchestras of varying sizes. The toolkit should include items such as audience data tracking templates, CLV modeling spreadsheet, and a “how to” guide. Next, the League could launch this initiative with orchestras during an event such as the spring Conference. Lastly, the League could provide back-end support and troubleshooting assistance for orchestras as they adapt the tool-kit to fit their individual needs (e.g., periodic Q&A calls). These steps are intended to be completed over the course of the next 1-2 years.

To establish industry benchmarks, the League should consider spearheading an industry CLV analysis. Since each orchestra currently uses a different segmentation, such industry

benchmarks will provide a shared lens for understanding overall orchestra CLV trends by key demographic segments (e.g., Silents, Boomers, Hispanics). Given the customer demographic and purchase history data necessary to conduct this analysis, the League could partner with a representative sample of orchestras that have substantial data systems to use their customer data to track participation rates at each step of the funnel, churn, acquisition rates, and transfer rates. Given that consumer segment trends are unlikely to shift dramatically year on year, the League could consider collecting such data every 5 years. This initiative is intended to be an on-going effort to be maintained by the League.

- ***Develop centralized digital knowledge and platforms and tools to leverage scale and align efforts.***

Many of the digital capabilities that would allow orchestras to have broader audience reach and increase audience engagement are difficult for orchestras to implement because of their required knowledge, high costs, long development times, and need for on-going support. In addition, currently many orchestras are developing digital capabilities in isolation from similar digital undertakings at other orchestras. The League may be able to develop centralized digital knowledge and platforms to share industry best practices, leverage scale, and align efforts.

The League could become a center for knowledge through conducting general research on digital capabilities and capturing best practices. The League could build centralized knowledge on digital tools and strategies (e.g., through literary research, convening digital experts). For example, the League could explore legal issues around distribution rights of streaming audio (e.g., on an online classical music station). In addition, as orchestras test and adapt digital strategies, the League could capture best practices and share them with its members. For example, the League could monitor progress and capture learnings as orchestras learn about search engine optimization and the implications on site structure, tracking consumer behavior to target segments, and how to most effectively use online communities to generate engagement and learn about consumer opinions.

In addition, there may be opportunities for orchestras to organize digital efforts or develop digital platforms to align efforts and leverage scale. For example, the League could develop a centralized relationship with an online radio station (e.g., Pandora) to efficiently organize a strategy to increase the amount of classical music available to listeners. Similarly, the League



may be able to work with a third-party vendor (e.g., Instant Encore) to design a cost-effective package for orchestras to purchase further digital capabilities.

Investing in future research to address existing knowledge gaps across orchestras

The League should conduct research to provide insights into the attitudes and behaviors of each of the demographic segments. In particular, the League can conduct a survey, formal or informal, to further differentiate between attitudes and behaviors of the current members, past attendees and recent lost attendees (attendees who have not returned to the orchestra within the past 3 years). With these learnings, orchestras can most effectively shape their program, promotion and other offerings to meet the needs of each segment, and ultimately increase interest and attendance.

Key objectives for this research should include:

- Identifying drivers/barriers of attendance and contribution for each segment
- Determining which aspects of product (e.g., program) and packaging (e.g., concert experience, promotions) are attracting/detracting each segment as it moves across the stages of the marketing funnel

The League has two options for conducting this research. First, the League could structure an overarching set of research (e.g., consumer surveys, focus groups, analysis of orchestra data) that addresses all demographic segments through a common set of objectives, accompanied by a few specific objectives for each segment given the attendance patterns that they have exhibited in the past. Second, the League could conduct individual, in-depth sets of research for each segment. While the first approach would provide more economies of scale and efficiencies, the second would more deeply explore individual groups and allow flexibility to prioritize execution of research based on estimated impact. For example, orchestras could prioritize research on Boomers, Silents and Hispanics, in that order, since they have the most significant change in the near-term.

With either approach, below is a set of recommended objectives for the League to explore to further understand each segment. These segments (Boomers, Hispanics, Silents, Gen X, Gen Y) have been prioritized based on the overall size of the potential future gains and losses, pending future CLV analysis.

- ***Understand effective tactics to engage the “aging patron” (Silents/Greats)***

The League should conduct consumer research around questions regarding how to engage patrons that are aging and have less access to the hall. Objectives of this research should include:

- Determining how orchestras can shape the concert experience to make it more enjoyable (e.g., special programming) and easier to attend (e.g., matinee shows)
- Understanding how orchestras can engage the aging patron once they are no longer able to attend performances (e.g., online communities).
- Identifying differentiated ways to engage this segment based on expected contributions (e.g., musician visit home of large donor, volunteer call smaller donor)
- Understanding what issues aging patrons consider when they make contributions (e.g., which issues they see as the most challenging for orchestras, which areas need the most investment)

Historically, the Silents/Greats have had the highest participation rates of any generation. Yet, these generations are starting to participate less in classical music as they age and become less mobile. It is critical for orchestras to continue reaching this loyal generation while continuing to realize earned and contributed revenue streams from them.

The research should be heavily qualitative, consisting of surveys, interviews and focus groups. Potential outputs of this analysis could be a recommendation of effective tools to engage older patrons both within and outside the hall, as well as identified issues most important to this segment.

- ***Understand how to “win back” disengaged Boomers and shift loyal Boomers to leaders and contributors***

The League should conduct consumer research to identify ways to further engage Boomers. Objectives of this research should include:

- Understand core reasons for declining attendance (e.g., preference changes, lifestyle changes) to identify potential levers for reengagement
- Understand perspectives and attitudes regarding contributions to gauge potential contribution levels and develop a targeted contribution strategy for Boomers

Historically, Baby Boomers have had the one of the highest participation rates of any generation. Yet, they have participated less in classical music in recent years. As this is a critical segment of their audience today (41%), orchestras' priority should be to determine ways to keep them engaged. This research would help them to understand what tactics will be necessary to do so. The research should consist of both qualitative and quantitative research (e.g., surveys, interviews, focus groups) to understand the magnitude of the challenges. Potential outputs of this analysis could be a recommendation of effective tactics to bring Baby Boomers back to the halls, as well as tactics to encourage Boomers to become leaders and contributors.

- ***Understand drivers and inhibitors of classical music attendance for Gen X***

The League should conduct consumer research around questions regarding how to keep Gen Xers engaged during their career building and early-family life stage. Objectives of this research should include:

- Understanding key drivers for low attendance to identify addressable barriers (e.g., child care) and non-addressable barriers (e.g., lack of time)
- For interested Gen Xers that are unable to attend at this time (e.g., because of life stage), identifying ways to keep them engaged outside of the hall (e.g., social events)
- Understanding the competitive set of leisure activities for Gen X (e.g., where are they going, how are they spending their time and money) and how classical music could increase its relevance among their consideration set

Historically, Gen X has had low participation rates compared to prior generations. While this generation is consumed with child rearing and career building, it is important for orchestra to engage with them at any level so that they stand a better chance of more frequent attendance when their life stage permits. This research would provide orchestras the necessary insights to develop effective strategies.

Potential outputs of this analysis could be recommendations of program opportunities, promotions and communication tactics to reach high potential attendees within Gen X.

- ***Understand behavior of Gen Y and how to develop awareness about classical music***

The League could conduct consumer research to understand how Gen Y discovers new music and how orchestras can best reach them through digital channels. Objectives of this research should include:

- Understanding how to leverage digital media to engage Gen Y (e.g., through emerging digital communities, blogs)
- Understanding key drivers/hurdles to participation and trial of classical music among Gen Y (e.g., is the environment too formal, is it too expensive, are they not familiar enough with the music?)
- Understanding the competitive set of leisure activities for Gen Y and how classical music could increase its relevance among their consideration set

Gen Y has the lowest participation rate of any generation at age 18-24. As generations tend to decline in participation over time, this means that Gen Y's participation could decline to critically low levels in the next 20-30 years. However, this generation is still young and many in Gen Y have not yet reached adulthood. This provides orchestras the opportunity to capture this burgeoning audience while they are still developing the musical tastes and interests that they will carry with them throughout their lifetimes.

The research should be heavily qualitative, consisting of surveys, interviews and focus groups. Potential outputs of this analysis could be a recommendation of effective channels through which to reach and educate Gen Yers about classical music.

- ***Develop a more comprehensive understanding of Hispanic audiences.***

The League should further explore existing knowledge gaps within the Hispanic segment with the following objectives:

- Understanding the attitudes and behaviors of primary Hispanic sub-segments (e.g., by country of origin, by first-generation vs. second-generation)
- Determining where and how to best communicate with Hispanics (e.g., messaging, communications, channel)
- Understanding whether Hispanic affinity toward regular classical programming is sufficient to attract this audience, or if culturally tailored programming is required

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- Determining potential contribution patterns/behaviors
- Creating industry case examples of products/brands that have successfully targeted and retained Hispanics consumers

As the Hispanic population grows, their size and affinity for classical music will make them increasingly important to orchestras over the next ten years. Orchestras must increase their understanding of this segment in order to fully capture its potential.

The League could guide this research by conducting surveys, holding focus groups, and analyzing existing internal orchestra data on Hispanics. Potential outputs of this analysis could be a Hispanic sub-segmentation with geographic overlay, a robust sample of communication tactics, recommendations on programming offerings, a suggested contribution cultivation strategy, and notable case-studies of effective Hispanic consumer targeting.

The League may be able to tap into prior research (e.g., Churn study, Audience Motivation Report), and re-cut the data to understand these trends and implications by demographic segment. However, if the League is unable to access this data, it is important that they begin developing additional research on consumer preferences that provides insight into demographic segment attitudes and behaviors.

The following background information, summary of findings, and recommendations for action were presented to us by the McKinsey research team. The League’s Research Advisory Council believes that official adoption of the recommendations by the League would need to be preceded by further review and discussion. However, we are making this material available to our members for reference and consideration.

Appendix 1

Themes Expressed by Orchestra Marketers in Interviews

“Beyond my ‘core audience’ I’m not exactly sure who to prioritize my marketing outreach toward.” Demographics of the “core audience” today look fairly homogenous to most orchestras (e.g., 55+, white, affluent, highly educated). However, as orchestras prepare themselves for the future, marketers are growing increasingly uneasy about who the next priority segment will be. Some posit that each subsequent generation will rise to fill seats as they enter the “core audience” demographic, though the generational analysis suggests that this view is unlikely without a real shift in behavior. Others are examining methods to dictate marketing priorities that take total lifetime ticket and contributed revenue into account.

“I’m not sure my segmentation is ideal, but I just don’t have the resources to dedicate to it” There is a wide range in sophistication of audience segmentation practices. Many orchestras have limited audience data and limited resources to dedicate to formulating deeper segmentation analyses and strategies. As a result, many smaller orchestras are led to execute low-cost, low-conversion rate strategies such as mass direct mailings and repeatedly contacting existing patrons. The consequences of such approaches are under-tailored messaging and wary patrons, both of which could lead to diminishing returns over time.

“I know I’m getting a good share of potential audiences to come through the door, but I’m just not sure where and why I lose them on the back-end” Audience conversion, from unaware trialists to major contributors, is critical to any orchestra’s financial health. However, orchestras often have limited visibility into why first-time audience members fail to repeat or why subscribers lapse in contributions.

Several orchestras have been unable to identify the key inflection points in the marketing funnel where they are failing to convert patrons.

“Anecdotally, I can say that I saw more Hispanics/young professionals/youth, but I don’t have data to back it up” It is critical to measure the impact of each marketing initiative in order to learn and adapt it to most effectively target priority segments. However, few orchestras are measuring and tracking the impact of initiatives, and thus are only able to anecdotally assess their success. Orchestras of all sizes have indicated a strong desire to better understand the impact and ROI of their existing initiatives.

“We are trying to be as innovative with our website as possible, but we’re probably a few years behind” There is a wide spectrum of website sophistication across the orchestras. While many have adopted techniques to engage and interact with users, smaller orchestras are still experimenting with simple online tools to engage their audiences.

Orchestras also mentioned other challenges, such as understanding the short-term and long-term impact of price discounts, understanding aspects of programming and packaging that impact attendance, and determining the sustainability and effectiveness of existing subscription models.

Appendix 2

Demographic Segments

Given demographic shifts and participation rate trends, it is critical for orchestras to address key demographic segments: **Silents/Greats, Boomers, Gen X, Gen Y, Hispanics.** For each segment, below are background information, classical music participation trends, media consumption trends and opportunities for orchestras.

Silents (And Remaining Greats)

Findings and Recommendations

Key Facts and Figures:

Born: 1925-1944
Current age: 64-83 years old
Population size: 41.3M (2008), 23.5M (2018E)
Average HH income: \$63.6K
HS diploma or better: 77%
Non-white minorities: 20%
Key events: The Great Depression, World War II, attack on Pearl Harbor, Cold War
Popular music genres: Jazz, blues, swing, country, bluegrass, gospel

- Orchestras should focus initiatives on transitioning Silents and Greats to greater contribution leadership
- Silent population is expected to decline by 45% over the next ten years, suggesting orchestras must work quickly to engage this cohort as they age out

The Silent (and remaining Great) generation experienced vast economic, political, and social shifts in their lifetime

The Silent generation was born during a period of economic and geopolitical crisis, too late to play an active role in world events at the time but also too early to embrace the radical social changes to come. Silents became wary of ideologies and political passions due to rapid shifts in societal views during their youth (e.g., the Soviet Union was considered an ally during World War II, but an adversary in the Cold War). Growing up, they were encouraged to conform to social norms and accept traditional values by parents and a society with bigger problems to tackle. In early adulthood, Silents were focused on “settling down,” on average marrying in their early twenties and generally becoming hardworking professionals.

Silents have experienced strong, consistent economic growth throughout their lives, though to a lesser extent than Baby Boomers. However, they feel that society has experienced steady decay through much of their lives, largely from the social and cultural changes brought to bear by subsequent generations. This arguably culminated in the “culture wars” in the 1980s and rise of conservatism.

Today, the Silents are benefiting from improved mobility and longevity due to medical advances, improved socioeconomics, and better health behavior. This is reflected in consistent declines in occupancy and the percentage of the elderly in nursing homes over the past 20 years.

Silents (and remaining Greats) have had among the highest live classical music participation rates, but are aging out

The Silents have had among the highest rates of participation in live classical music, ranging from 11-17% over the past 25 years. However, the generation has been aging out, with the overall population expected to decline by 45% over the next ten years.

Consequently, Silents and remaining Greats accounted for a decline of 1.8 million in the live classical unique audience since 2002. Participation rates for Early Silents, born between 1925-34, have increased across frequency levels (e.g., 1 and 3-4 times per year). Frequency trends for Late Silents, born between 1935-44, are different, with declines in participation rates in the 1 and 3-4 frequency buckets and gains in the 2 and 5+ buckets.

Silent live classical music participation
Attendance: 4.7M (2008), 1.9M (2018E)
Participation rate: 12.1% (2008), 9.0 (2018E)

Audience declines are projected to be 2.8 million among Silents and Greats by 2018 if recent trends continue.

While Silents under-index in use of digital platforms compared to younger generations, Silent classical music audiences over-index compared to the overall Silent population

Silent engagement in online and mobile media substantially under-indexes subsequent generations. For example, just 31% of Silents have broadband internet connections, compared to nearly 60% for Baby Boomers. However, Silent classical music audiences significantly over-index in their online activity (60% of Silent audiences are online, compared to 30% for the overall Silent population). Orchestras should explore the viability of using digital tools to engage Silents at home.

Strong attendance among Silents and Greats suggest orchestras have an opportunity to transition the audience toward greater contribution leadership

To target Silents and Greats, orchestras currently focus on generating awareness through repurchase. Orchestras have adopted a number of initiatives relating to this. For example, they have built awareness and consideration with free concerts in parks and senior living communities. Orchestras have also partnered with social networks and businesses that have high concentrations of seniors (e.g., libraries, spas, insurance companies, estate planners, community centers) to promote their offerings. Some orchestras have also offered bus shuttles to senior homes. To generate trial and repurchase, orchestras have created programs geared toward the senior segment (e.g., pure classical programming, pops series) and scheduled concerts to better align with senior lifestyles (e.g., matinee weekday shows, “coffee and cookies” series). They also have offered discounts for senior subscription buyers and enhanced customer service experiences (e.g., high touch customer service for subscribers, thank you lunches).

Orchestras have generally been successful in cultivating trial and repeat, evidenced by increases in participation rates at higher frequencies among Early Silents and Greats. Orchestras should focus their attention on transitioning Silents to greater contribution leadership.

Boomers

Findings and Recommendations

- Orchestras should focus initiatives on increasing Boomer attendance frequency and transitioning them into contributors
- Boomer attendance at 1-2 frequency levels has declined the most, suggesting that orchestras should continue focusing on trial

Baby boomers grew up during a period of cultural revolution and are currently the largest cohort in the United States

The Baby Boomers grew up during a period of social and cultural transformation during the relatively stable post-war era. They were a very large cohort, driven by a spike in birth rates following the end of World War II. Societal institutions such as schools were arguably unprepared for the size of the population, potentially contributing to sharply lower test scores as the Boomers passed through secondary school. Crime rates also spiked through the late 60s and early 70s. The cohort is often divided into “Early” and “Late” classifications, with some characteristics of Late Boomers aligning more closely with Generation X (e.g., approach to parenthood, arts participation).

With an upbringing defined by optimism, Boomers focused their interests on experimentation, individualism, and social causes. For example, they actively questioned traditional social roles (e.g., the nature of corporate life, gender roles). As a result, broader society characterized Boomers as “hippies” and “rebels.”

Key Facts and Figures:
Born: 1945-1964 (1945-54 "Early", 1955-64 "Late")
Current age: 44-63 years old
Population size: 79.8M (2008), 74.7M (2018E)
Average HH income: \$86.0K
HS diploma or better: 88%
Non-white minorities: 27%
Key events: Cold War, Vietnam War, Civil Rights movement, National Endowment for the Arts created, public-figure assassinations (JFK, MLK, RFK), moon landing, Woodstock
Popular music genres: Soul, R&B-gospel, reggae, pop, hard rock, heavy metal, funk, disco, minimalism

Dramatic societal shifts occurred throughout their youth (e.g., the Vietnam War, deaths of several generation-defining leaders, the moon landing). On the music front, Boomers were beneficiaries of legislation such as the Children’s Bill of Rights in Music and the creation of the National Endowment for the Arts. The Woodstock music festival in particular was a seminal cultural event,

embodying the countercultural movement, free-spiritedness, and idealism.

During the 1980s, Boomers were career-driven, goal-oriented, and upwardly mobile, marked by the rise of young urban professionals (“yuppies”) and materialism.

Boomers experienced an unprecedented accumulation of wealth in adulthood, being the highest earning cohort to date. At the same time, Boomers have been the highest spending. As a result, many are

financially unprepared to maintain their consumption levels in retirement, potentially leading to later retirement or decreased consumption as they age.

Boomers have historically been the largest live classical music audience segment, signaling challenges if declines continue

Nearly 2.5 million Boomer audience members stopped attending live classical concerts between 2002 and 2008. This was mostly driven by losses in participation at 1-4 frequency levels. The participation rate at the 5+ frequency

Boomer live classical music participation
Attendance: 7.3M (2008), 5.6M (2018E)
Participation rate: 9.4% (2008), 7.8% (2018E)

level was flat to marginally higher, but do not make up for losses at lower participation rates. Audience declines among Boomers are projected to be 1.7 million by 2018 if recent trends continue.

Boomer engagement in online and mobile platforms is much higher than Silents

Boomers have significantly higher engagement in online and mobile platforms than Silents and have comparable participation rates as Gen X and Y. For example, 82% of Boomers use mobile phone services vs. 87% among Gen X and Y and 68% among Silents. For internet use, broadband use, and making online purchases, it is a similar picture. That said, Boomers significantly under-index on other online activities (e.g., watching streaming video, social networking, instant messaging, downloading music, buying music, blogging) compared to subsequent generations.

Boomer attendance behavior suggests that orchestras need to focus on cultivating more trial and transitioning patrons to contributors

Orchestras have demonstrated the ability to capture Boomers from awareness to repurchase, with frequency at the 3+ level flat to marginally higher since 2002. Currently, orchestras are focusing on building awareness and consideration by leveraging traditional marketing tactics (e.g., national public radio, relevant newspapers and magazines), influential radio personalities, and corporations where Boomers work. They have encouraged trial and repurchase through subscription discounts through corporate partners, special programs (e.g., pops) with guest artists, scheduled concerts tailored to Boomer lifestyles (e.g., Sunday afternoon family series), and special programs (e.g., pre-concert lectures, post-concert drinks) to augment the overall concert experience.

That said, losses in Boomer unique audience since 2003 suggest a transfer gap during the trial stage. This indicates that orchestras should continue focusing on increasing trial. Among Boomers attending 5+ times, orchestras should continue trying to increase their attendance and transition them into contributors.

Gen X

Findings and Recommendations

- Orchestras should focus initiatives on increasing Gen X repurchase (as unique audience has declined at every frequency level) by catering to their life stage (e.g., family-oriented concerts)
- Gen Xers have the highest penetration in listening to online radio and buying digital music, suggesting opportunities for orchestras to engage them through digital platforms

Generation Xers have transitioned from independent latchkey kids to family-oriented adults

Generation Xers grew up during a period of economic uncertainty, political turmoil abroad, and social dysfunction. Key events and issues during their lives included the oil embargo, high inflation, severe recession in the early 1980s, Iran, the Munich Olympics, the Soviet Union's invasion of Afghanistan, rising crime rates, and the discovery of the AIDS virus. Their parents were highly career-oriented and self-focused, marked by historically high divorce rates and women continuing to enter the professional workforce. As a result, Gen Xers were raised as "latchkey kids," learning self-sufficiency and independence at an early age.

Despite being demonized by the media (e.g., in films) and left alone by their parents, Gen Xers have the highest college degree attainment of any generation thus far. Science and technology were focal points in education during their youth. They were also the first generation to grow up with computers and portable music players.

Key Facts and Figures:

Born: 1965-1981
Current age: 29-43 years old
Population size: 61.4M (2008), 62.4M (2018E)
Average HH income: \$70.7K
HS diploma or better: 86%
Non-white minorities: 39%
Key events: Vietnam War ends, Watergate, Sony Walkman launched, John Lennon shot, President Reagan elected, Cold War ends, Challenger disaster, rise of Silicon Valley
Popular music genres: Hard rock, heavy metal, "hair" bands, glam metal, punk rock, pop, hip hop

In adulthood, Gen Xers have come to embody a diverse range of personalities, from internet entrepreneurs to professional skateboarders. In the workplace, they represent a turning point in attitudes, demanding flexibility and being willing to make career tradeoffs for lifestyle considerations. As adults, Gen Xers have become pragmatic and family-oriented, giving their children the attention and security their childhoods lacked. A significant portion of the cohort is transitioning into marriage and

childrearing life stages.

Reflecting their wariness of established institutions, Gen Xers have become increasingly risk-averse regarding their finances. They are skeptical about government entitlement programs being there for them in retirement, with 59% of Gen Xers saying they would rather not pay into Medicare and instead save for their own healthcare.

Gen Xers have significantly lower rates of participation in live classical music than preceding generations

Generation X participation rates in live classical music have ranged from 8-10% compared to 11-17% for previous cohorts, reflecting a lower affinity for live classical music.

Since 2002, Gen Xer participation has declined substantially faster than other generations, with a loss of 0.8 million in unique audience. Unique audience losses occurred at every frequency level.

Gen X live classical music participation
Attendance: 4.3M (2008), 3.5M (2018E)
Participation rate: 7.0% (2008), 5.6% (2018E)

Gen Xer online and mobile engagement is broadly similar to Gen Yers, but lags in specific activities

Gen Xers have among the highest participation rates in online, broadband, and mobile access (>85%). They have the highest participation in listening to online radio and making online purchases, including online music purchases. That said, while Gen Xers significantly overindex on all online activities compared to previous generations, they underindex by 30-50% compared to Gen Yers on specific activities such as music downloads, social networking, blogging, and instant messaging.

Family-oriented, overstretched Gen Xers pose a challenge across the marketing funnel

While orchestras have been successful in achieving awareness among Gen Xers, trial is still significantly lower than previous generations at the same age. To build awareness and consideration, orchestras have used traditional media (e.g., radio, print, outdoor), special events (e.g., public concerts, work functions), business partnerships, family-oriented programming (e.g., movie music, “Cirque de Symphony”), and community-building (e.g., networking and socializing). To increase trial, orchestras have offered discounted tickets (e.g., to families, young professionals), presented pre- and post-concert events, and tailored schedules around Gen Xer schedules (e.g., Sunday afternoon family series, family holiday series).

The current transfer gap appears to occur in the repurchasing stage, with 5+ frequency among Gen Xers declining significantly more (nearly 25%) than other generations for live classical music.

GEN Y

Findings and Recommendations

- Orchestras should focus initiatives on increasing Early Gen Y trial and repurchase, having achieved awareness, through targeted events and engagements
- Through educational programs, orchestras have built affinity among Late Gen Yers while they are young, but have struggled to convert them to trial

Key Facts and Figures:

Born: 1982-2000
Current age: 8-28 years old
Population size: 88.5M (2008), 94.0M (2018E)
Average HH income: \$40.0K¹
HS diploma or better: 61%¹
Non-white minorities: 41%
Key events: Tech bust, Napster, Kurt Cobain passes away, iPod launched, smartphones, 9/11 attacks, wars in the Middle East
Popular music genres: Grunge, alternative rock, indie rock, G funk, gangster rap, pop punk, bubblegum pop
¹ Refers to Gen Y population over 16 years old

Generation Y is the most diverse, tech-savvy generation in history

Members of Generation Y have no concept of a world without computers, cell phones, or the Internet. They are a large cohort, rivaling the Baby Boomers in population (~80 million people in each cohort today), and are currently in diversified life stages (i.e., childhood, high school, college, early adulthood). Gen Yers grew up during a particularly stable period of history, with their confidence rooted in a strong global economy and job market. Growing up with technology and personalized attention, Gen Yers expect

instant gratification and products tailored for them. That said, they will not adopt technology unless it is convenient or useful.

Gen Yers have been shaped by packed activities and social schedules, largely driven by their “hands-on” parents. They interact with their families frequently and are more likely to live with their parents after graduating from college.

Gen Y live classical music participation

Attendance: 3.8M (2008), 6.3M (2018E)
Participation rate: 7.4% (2008), 6.4% (2018E)

Gen Yers have fundamentally different expectations about work compared to previous generations. They view their careers as a series of 2-3 year chapters, with expectations for quick rewards and

emphasis on personal development. In addition to having flexibility and control, Gen Yers are more likely to desire jobs that have a positive impact on society.

Gen Yer participation in live classical music appears to be similar to Gen X

The majority of Generation Y has yet to enter the adult population. Among those that are over the age of 18, their participation rate in live classical music appears to be similar to slightly lower than Generation X.

Generation Y has the highest levels of participation in most online and mobile activities

Generation Y has the highest level of engagement in online and mobile activities. It significantly overindexes (by 100% in some cases) in social networking, watching streaming online video, downloading music, downloading classical music, blogging, and instant messaging compared to previous cohorts.

Orchestras have struggled to convert Early Gen Yers (21-27 years old) using similar tactics as for Gen Xers

While orchestras have successfully achieved some awareness among Gen Yers, participation among adults in the cohort is still the lowest for all cohorts. Orchestras have created events and engagements to appeal to Gen Yers (e.g., singles nights, happy hours, networking events, cultural education events), tailored schedules around Gen Yer lifestyles (e.g., early evening concerts on Friday and Saturday, Thursday evening corporate nights), and price discounts to “affinity groups” (e.g., discounts for Georgetown and Yale college alumni).

The transfer gap for Gen Y occurs in trial and repurchase stages, indicating orchestras should focus some efforts on these areas.

Late Gen Yers (9-21 years old) present an opportunity for orchestras to build affinity while they are still young

Orchestras currently focus their marketing efforts on generating awareness among young Gen Yers. This has been accomplished through initiatives such as free music lessons and ensemble concerts in local schools, creation of youth symphonies to promote engagement, and “Concert for Kids” series to encourage parents to bring children to concerts. Despite successful educational awareness programs, orchestras have struggled to convert young Gen Yers to trial

Hispanics

Findings and Recommendations

- Orchestras should focus initiatives on converting Hispanics from trial to repeat. Orchestras have executed initiatives toward driving awareness, consideration and trial among this segment (e.g., through cultural events or festivals); now, they should also focus on converting this segment to repeat
- Orchestras indicate they have a limited understanding of the Hispanic segment; thus, in order to optimize marketing efforts, there is a research opportunity to uncover the unique attitudes, motivations, and needs of the segment
- Hispanics are becoming increasingly important to orchestras; this is due to 1) rate of population growth, and 2) steady to slight increasing affinity toward classical music

Key facts and figures

Adult pop: 30.3M (2008), 55.6M (2028E)
Pop <18: 16.3M (2008)
Average age: 29 (vs. 37 for U.S.)
Median HH income: \$38.7k (vs. \$50.2k for U.S.)
High school diploma or better: 60% (vs. 85% for U.S.)
Adult U.S. citizenship: 46.1% (native), 15.4% (naturalized), 38.5% (non-citizen)
<18 U.S. citizenship: 90.4% (native), 1.1% (naturalized), 8.5% (non-citizen)
72.4% live in 6 states: CA, TX, FL, NY, AZ, IL
Heritage: 63% Mexican, 25% other Central American, 8% South American, 5% Other

The Hispanic segment is becoming increasingly important to orchestras

The US population is clearly evolving and Hispanics are playing a significant part. The segment is expected to constitute more than 50% of US adult population growth over the next 20 years, growing faster than any other segment of the population. If trends continue, Hispanics are forecasted to represent a ~1.1M increase in total classical music audience growth by 2018. This implies a live

classical music market share among Hispanics of 8.4%, increasing a slight from 7.8% share today. At this rate, the Hispanics are on track to be 20% of the total classical music audience population by 2018, compared to 12% today.

Hispanic classical music participation*

Attendance: 2.4M (2008), 3.5M (2018E)
Participation rate: 7.9% (2008), 8.4% (2018E)

In addition to expected population growth, Hispanics demonstrate stable to slightly increasing affinity toward classical music.

This is evidenced by the fact that Hispanic attendance for overall live music has declined since 2003, however attendance for classical music has slightly increased. The combination of population growth and affinity make the segment one that cannot be ignored, particularly in regions where the Hispanics are a significant portion of the population.

Census data suggests that Hispanics are also undergoing an evolution. In general, the Hispanics tend to be younger than total US, have lower income than relative to total US, and exhibit some unexpected media consumption behaviors. While Hispanic online and mobile penetration lags behind non-Hispanics, those who do use, tend to use it more often. This is demonstrated by greater levels of online and mobile activities (e.g., paid downloads, SMS), suggesting that marketers need to be increasingly savvy about where/how they speak to this segment.

Anecdotal insights from the orchestra field suggest that marketers are struggling to convert Hispanics to repeat attendance, despite innovative tactics to drive awareness, consideration, and trial

Acknowledging the growing importance the Hispanic segment, orchestras have focused their resources on building awareness, consideration and trial.

Several orchestras indicate they currently promote both their seasonal programming and special cultural events through Spanish-speaking networks (e.g., Univision, Telemundo) and local Spanish newspapers.

They have also experimented with more grassroots tactics of awareness building, such as word-of-mouth (e.g., using influential Hispanic community leader to tell the community about a special event). While the impact of word-of-mouth is difficult to quantify, experts outside of the orchestra world often attribute the success of word-of-mouth to the community-oriented culture of the Hispanic segment.

In efforts to transition simple awareness to consideration, orchestras have also created targeted programs to engage Hispanic youth with classical music through general education (e.g., lectures, exposure to concerts) and training (e.g., music lessons, master classes). These tactics, coupled with community outreach initiatives in public venues where Hispanics tend to congregate (e.g., free concerts in the park, church, schools) help to further shape and mold the perception of classical music and orchestras to an under-represented audience segment.

A common “hook” orchestras have utilized to transition audiences from consideration to engagement is special paid events or festivals around cultural themes (e.g., Venezuelan classical music, evening of Latin classics) and festivals (e.g., Dia del Muerto, Cinco de Mayo). Other frequently used tactics include featuring musicians, composers or conductors of Latin or Spanish origin. However, orchestras indicate difficulty in tracking future repeat purchases of unique audiences.

Additional research on Hispanic segment will help orchestras understand the segment and improve cultivation of repeat purchases

Currently, orchestras do not believe they have a strong understanding of the Hispanic segment. Thus, a key recommendation is to enhance orchestras’ understanding of Hispanics through further research. Research should focus on the 1) attitudes, motivations, and needs behind the diverse cultures that comprise the Hispanic segment, 2) how best to target and relate to Hispanics youth, as the population skews young and 3) how Hispanics vary by geography, generation, and their original country of birth.

Another recommendation is for orchestras to also dedicate efforts on converting the segment to repeat. Here, it is critical to leverage research on Hispanics to create the most compelling and relevant follow-on offers. Many orchestras believe that engaging Hispanic audiences with a consistent, tailored message and program is the start of engaging repeaters.

Appendix 3

Digital Platforms

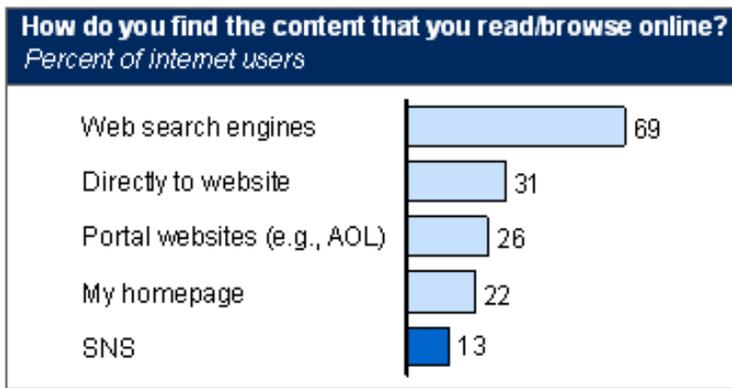
Consumers today use digital platforms for six primary purposes: Search, Commerce, Entertainment, Community, Content, Communication. For each purpose, below are consumer use trends, best practices and opportunities for orchestras.

Search

Key Recommendation

Enhance search optimization to achieve higher priority in search results for relevant keywords and enable audiences to find orchestra information easily

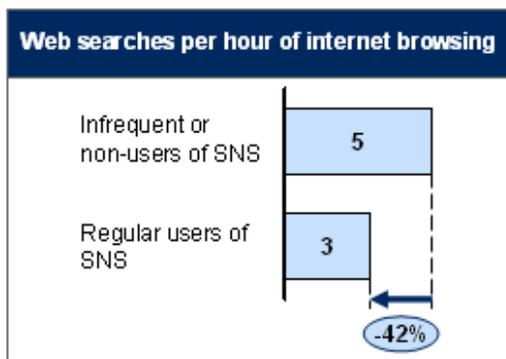
Consumers heavily use search engines and are shifting to social search



Internet users today universally use online search engines to find content online (94% of internet users).

Furthermore, their search activity is highly consolidated (90% of search engine searches are with Google and Yahoo). Interestingly, social networking sites (SNS) have become a source for online search, capturing 13% of the online search market.

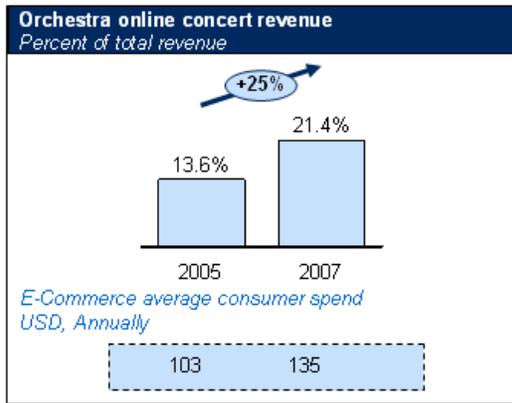
SOURCE: McKinsey iConsumer survey



Regular users of SNS tend to use search engines less than other users, which indicates a potential future fragmentation within the search engine market.

SOURCE: McKinsey iConsumer survey

Best practice marketers have heavily invested in search optimization



SOURCE: McKinsey iConsumer survey

Best practice marketers use search engine optimization to improve the volume and quality of traffic to their websites. Optimizing search primarily involves editing content and coding (“meta tagging”) to increase its relevance to specific keywords. For example, Amazon optimized for “buy online” and is the top non-paid placement on Google searches. In addition, many marketers purchase keyword lists such that their links have priority listings (“sponsored links”) when users enter a keyword query.

Orchestras have the opportunity to make their optimization more robust

While most orchestras have integrated search into their digital strategies, their search capabilities can be more robust and targeted to position them at the top of search results. For example, using a sample of 15 orchestras, when users search “classical music” and name of city, only four orchestras appear in the top 20 items listed, indicating a great opportunity to optimize search.

E-Commerce

Key Recommendation

Make purchasing more interactive and streamline process to enhance the audience online shopping experience in a way that encourages their return

E-Commerce is booming among consumers

E-commerce has risen steadily in the past five years, with the number of online buyers increasing about 25%, and their average annual purchases increasing from \$1,545 to \$2,971. The entertainment industry has successfully leveraged this growth, with total event ticket sales purchased online increasing about 50% from 2005 to 2008.

Best practice marketers have innovated around e-commerce platforms

Best practice marketers have developed e-commerce platforms that enable inventory management, provide online payment capabilities, and fulfill orders on the back end. Marketers have also simplified the transactional process by providing customers with one-click payment options (i.e., remember customer payment information) and at-home and mobile phone ticketing/confirmation options. More sophisticated commerce tools include tracking customer purchases and behavior to make individual recommendations and cross-sell related items.

Orchestras have the opportunity to upgrade their e-commerce platforms

Orchestras have a range of e-commerce capabilities. In 2007, 135 of 200 orchestras reporting to the OSR listed online ticket revenue, potentially indicating that 30% lack online commerce capabilities. On the other hand, of those who reported in both 2005 and 2008, online ticket sales grew from 13.6% to 21.4% of total ticket sales during this time, indicating that these orchestras have leveraged the trend of growing e-commerce. Some orchestras are enabling audiences to view seats and the concert hall before making their purchases and have reported very positive results. There are also opportunities for orchestras to advance their capabilities through linking purchase data with audience data to customize recommendations, to streamline the transaction process (e.g., save credit card information), and to enable purchases from mobile phones. With these opportunities, orchestras can continue to grow and serve audiences more fully.

Entertainment

Key Recommendation

Provide digital audio/video for free to utilize the offerings as a marketing tool and thereby increase audience awareness and engagement with the music

Consumers are shifting to digital platforms for media entertainment

Since the introduction of digital platforms in the 1990s, consumers have shifted much of their entertainment time away from traditional platforms (e.g., broadcast TV, radio) and toward internet and mobile platforms. For example, since 1990, average consumer time spent watching broadcast TV declined by 40% and radio by 10%. Comparatively, internet and mobile were virtually non-existent in 1990, have grown at extraordinary rates, and now accounting for 6% of total annual hours spent with total media. While TV remains the dominant choice, consumers are shifting toward digital media.

Over the past three years, time spent with iPods/PMP increased by 26% annually, streaming audio/video by 26%, mobile ringtones/downloads by 29%, satellite radio by 19%, while time spent listening to traditional CDs/cassettes/LPs declined by 15%.

Best practice marketers are supplying digital entertainment options

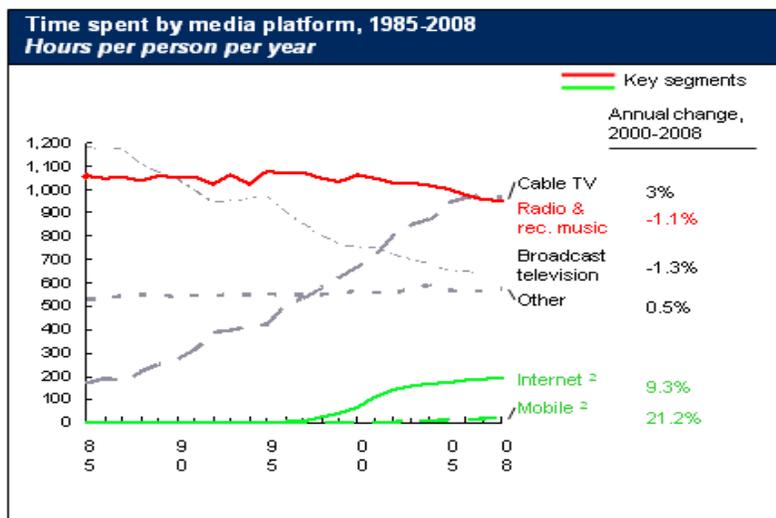
Best practice marketers have provided consumers with several standard digital options for entertainment (e.g., streaming/downloadable audio and video, mobile ringtones/downloads, wallpaper and screensavers). Some marketers have also begun to create more dynamic offerings that adapt to individual consumer preferences, such as Pandora's adaptive radio based on user ratings, or You-tube's recommendation lists based on past viewing history. Some marketers monetize these offerings by giving consumers the option to buy or download these recommended offerings. This enables marketers to expose and educate consumers about new entertainment options by leveraging existing user preference.

Orchestras can increase their digital entertainment offerings

Orchestras can view their entertainment offerings in two categories: Functionality and product offerings. In terms of functionality, orchestras currently have a wide range of entertainment capabilities. For example, while some offer an extensive set of music and video downloads or streaming options, others still have the opportunity to develop such functionalities. Additionally, orchestras have an opportunity to potentially partner with third-parties (e.g., partner with online radio station, other orchestras) to expand their reach of audience exposure to orchestra audio/video.

In terms of product offerings, orchestras have mixed views on offering digital music for free, or charging for it.

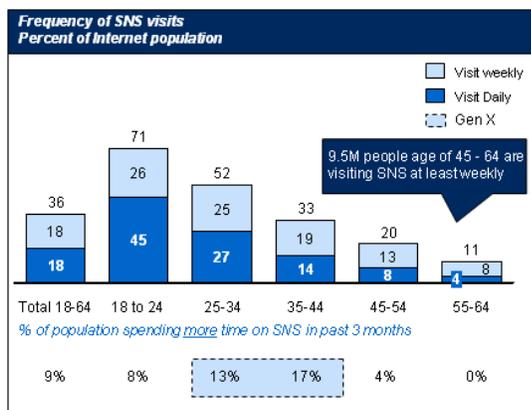
Orchestra digital music has been unprofitable due to the current cost structure and historically low volume sales.



Orchestras traditionally viewed recorded music as promotional items (80% of orchestras indicated that their primary objective for making audio recordings was for institutional branding and promotion in a 2008 survey. Orchestras should assess the opportunity to provide free digital music as a marketing tool to reach audiences based on their anticipated revenue from digital sales and their expected costs from musician, recording and other extraordinary fees.

SOURCE: Veronis Suhler Stevenson

Community



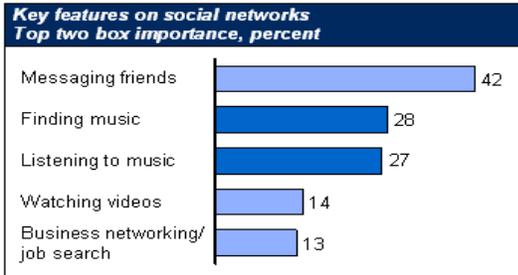
Key Recommendation

Establish presence in digital communities to provide a forum in which audiences can interact and a place from which to obtain audience feedback

Online communities are gaining share among internet users

Online social networking communities (SNS) have grown rapidly since their arrival in 2004. Today, about 40% of internet users (67 million users) visit SNS at least monthly.

SOURCE: McKinsey iConsumer survey



The primary reasons for visiting such sites are to share knowledge, expertise and talents, and to help other people. In addition, consumers are broadly using SNS to find and listen to music.

SOURCE: McKinsey iConsumer survey

Best practice marketers are working to understand online communities

Best practice marketers are seeking to better understand digital communities since they are still relatively new. They often establish a presence in such communities and monitor consumer comments and feedback (the “buzz”) to understand how to better interact with and serve consumers. Some marketers are even creating their own online communities (e.g., Ning).

Orchestras should maintain online community presence while continuing to understand how best to interact with audiences in these communities

Many orchestras have a presence in online communities today. Orchestras should continue to adapt their use of these networks as more is learned about how users engage in them. Meanwhile, marketers should use these communities as sources of feedback and “buzz” about their orchestra (e.g., monitor what people are saying about their symphony).

Orchestras could also build communities on their own sites through discussion forums for audiences to voice perspectives. These user-generated, interactive platforms would allow consumers to feel more engaged about what is going on with the orchestra. Ultimately, they would enable orchestras to better understand the thoughts and desires of their audiences.

Content

Key Recommendation

Increase ease of site navigation and leverage CRM data to make recommendations to help consumers find relevant offerings on website

Content is one of the primary online activities in which consumers engage

With 84% of internet users browsing/reading online, content is a pillar to digital offerings. Over 60% of time spent with content is through general portals (e.g., Google, Yahoo) and websites dedicated to specific topics. The remaining time is spread across social networks, blogs, discussion boards, and other niche services.

Music content topics are capturing a significant share of digital usage; 16% of internet users say that they browse/read music content (relative to 23% and 13% for sports and business/finance respectively). Among the younger segment (18-24), interest in online music content is even higher at 23%.

In addition, consumers are increasingly discovering music content through digital channels. When asked for the top sources of discovering new music, 28% of users selected browsing online/mobile music sites (e.g., iTunes), 24% selected social networks, 14% selected recommendation websites (e.g., Pandora). This high level of online interaction makes this a key area for music marketers to connect with consumers.

Best practice marketers have innovated to push content engagement

Best practice marketers have focused on engaging consumers through a broad range of content tools, such as content-rich sites, content aggregators (e.g., integrate content from third-parties on a single site such as GoogleNews), and microsites which make content easily accessible through mobile phones (e.g., CitiMobile). Marketers have also developed tiered experiences that give users “special access” to certain types of content based on their loyalty level. Leveraging data on click-through and purchasing behaviors has allowed some marketers to understand user content preferences and optimize the site experience (e.g., directing user directly to most frequently viewed pages upon log-in). Interactive games and user generated content are some additional ways that best practice marketers are allowing consumers to establish connections.

Orchestras have made content-rich websites and should continue making these sites places for audiences to connect with the music

Currently, most orchestras have done well with the use of standard digital tools to engage consumers. Across the various groups, most orchestras tend to have websites that not only convey information (e.g., performance times, program notes, information about the music director, archived music and video and ticket purchase/contribution information), but also the functionality to access each of these areas quickly and easily. While some orchestras may need to further enhance their online digital strategy, most orchestras have successfully created content rich websites that engage audiences.

To increase sophistication, orchestras should seek to make their online content more interactive and customized. Orchestras should not only help consumers with ease of navigation, but also leverage CRM data to make recommendations to help consumers find relevant offerings.

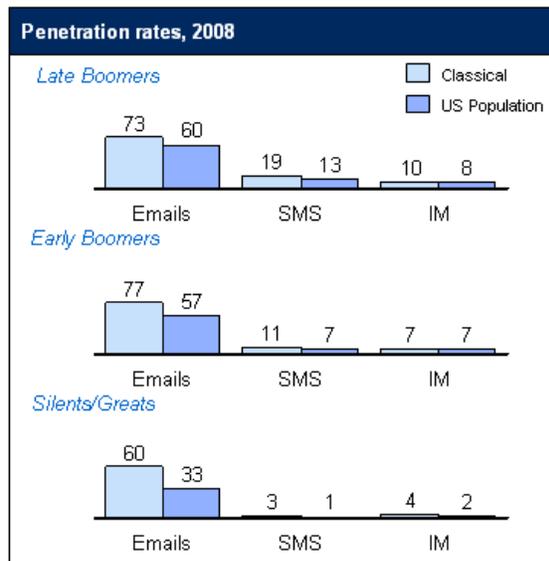
Communication

Key Recommendation

Shift to personalized communication methods to increase effectiveness of communication and provide audiences with information of most interest

Many consumers use digital communication and best practice marketers reach them through these channels

Internet users broadly use digital media for email (71% of users), SMS texting (17%), and instant messaging (13%). Additionally, classical music audiences use digital for communication more broadly than the overall population; particularly older age segments.



SOURCE: Experian Simmons

While marketers have been using email lists to send mass communications to consumers for quite some time, newer capabilities enable them to now leverage customer information to customize emails to individual preferences. They also communicate through SMS text messages by providing product/service updates, discounts and miscellaneous reminders.

Orchestras can customize digital communication to increase effectiveness

Currently, most orchestras are using “email blasts” and SMS text updates. However, there is an opportunity to combine their own customer databases with purchase history to customize individual emails (e.g., provide recommendations based on audience member program preferences) and integrate text message reminders and updates into their purchase fulfillment process.