Analyzing Orchestra Business Models

June 8, 2024

BOB ORR: Maybe 18 months ago, John came to me and said, “Hey, we should really think about, you know, re-kind of doing our strategic plan.” At that time, we had a vision and strategic plan that was pre-COVID, pre-Hurricane Harvey, which we had here in 2017. Both of those events caused both financial hardships, obviously, for the orchestra, obviously, for the city, for musicians and that. But also some of the goals had been reached, but it just didn’t seem right for the next kind of era to be to be thinking about that.

So we really undertook what I would call as a co-creation effort with symphony management, with symphony musicians, with different — other board members of the broader community, really to take a look at what should be the next kind of strategic plan kind of around this. And — and that had a number of components of it. You know, obviously, we gathered input around it. A good part about it, and which we won't talk about any of this part today, was we reset the vision, mission, and values.

And some of those were all good and right, but others weren't really very targeted. Some of it wasn't kind of easy to kind of execute and kind of put in place. We then identified priorities, you know, we synthesized those into kind of a financial plan, and helped kind of create that in the narrative in the actual plan. But as part of that work, once we were getting into it, while we had not planned on doing a lot of orchestral benchmarking, we realized that in order to have input into certain questions, not to say this gives us the answers, that it would be very useful to do certain kinds of orchestra comparisons, and kind of what's going on — what's going on around it.

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So the other thing that was happening is, what we were beginning to hear a lot about is from musicians, we would hear things like, "Well, we think we hire more newbie musicians, you know, right out of music school than other, you know, big orchestras, right?” Or “We don't get as good as guest artists,” or like, “How do we really kind of compare?” So there was some analysis that was done, basically, because I think people had in their mind a certain perception that was not based on any kind of facts, right?

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So, and some of those facts are easy to get to, and some are not, right? And so we teed up a series of things. And what we're going to share today is — really, the focus of discussion is really on two questions that revolve around what do larger or maybe best orchestras do. I don't really want to define it in that way, but you do have to set up some kind of peer sets. And I think that the first questions was around the orchestra business models. And we'll talk more about that. But all businesses have a business model, all orchestras have a business model, whether it's — whether it's a purposeful choice, or whether that's where you've kind of ended up.

But what are the business models that are employed, right? And what are those differences? And how can that help us inform strategic decision making in terms of the type of that? So that's really at the top level. And then we also investigated a number of questions really at a more detailed level. And what we're going to talk about today is a little bit about some of that analysis that was around what we call artistic prominence, which is, you know, how do orchestras vary in their ability to kind of source and keep top talent. And also how do they engage, you know, prestigious guest conductors and guests artists.

And so we're going to — we're going to spend some time on those, and kind of a little bit how they help inform some strategic decision making along the way. And, you know, in some cases, there's a little like, when we heard, it's like, well, is this myth or is this reality in terms of the anecdotes we're hearing? And of course, the truth is always somewhere in between. But I think the punch line is it's — it's not fully true. And there's lots of ways to be able to kind of improve an orchestra's position. Not to say that's the right way through — through some of this.

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So that's what we're going to do today. And as part of this, you'll see, we've done analysis across, I don't know, maybe 20 — 20 orchestras. The top in terms of size for comparability. That being said, I think there are many of the results here, if not all of them, that are applicable certainly to orchestras of other sizes. Again, it's about the choices that you make, and — and how you leverage those to advance your goals, whatever your goals are, whatever your vision is, as — as an orchestra.

Okay, so we're going to start off with the question, really, of business model. And let's level set on. what is a business model? This may seem obvious to some of you, and to others, you're like, well, is he talking kind of Greek? But basically, all businesses and nonprofits will have a business model. It's really the set of choices that set the priorities and things that you don't do. You could say, well, is that the strategy? Yeah, it's obviously related to strategy. But it's a fundamental set of choices that you make around it. And as we talk through it, we'll talk about it in a kind of a simplified way. But we think that that's kind of relevant for this.

And for the most part, in orchestras, there's talk of what's called the traditional orchestra business model. And that includes elements to a value proposition to customers, of a mix of programming and classical, pops, maybe family performances. A key element of this is usually it relies on donor contributions for annual funding, usually around somewhere on the order of kind of two thirds plus ticket sales and endowment contributions, again, in a traditional way. And there's some access to a hall. You may not own a hall, but you have access to that.

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And that's like one variant of a business model. But the question becomes, there are other business models out there, what are they, what can we learn from them? And so this is going to be kind of our take on it. You may have your own take on it as we go through it. So to look at it, we kind of employed a — I guess a framework. All consultants have a framework. That's just a fancy way of saying an outline of elements.

Sorry, I can't stand behind a podium for very long. So we boil it down into kind of three simple elements. First of all, it’s value proposition. So this is — this is a general framework that we can apply in any business, but then we tailor it really. And we've tailored to here, as you'll see, as we'll talk about orchestras. There's a question, first of all, which customers do I serve, and which do I don't serve? That includes audience, donors, and others in the community. And what am I actually offering them? What's my value proposition to them? What am I bringing to them, right? By way of performances, by way of other offers.

An important one, and I think the most — perhaps the most important one here is the revenue model, which is how do I generate revenues? What are the different sources and types of revenues, right? Most orchestras have some kind of mix of ticket sales, annual contributions, endowments, but some have other forms of it. Some have a lot of other forms of it, and it helps them — them quite a bit. But the different mixes of those, which we'll talk about quite a lot here, are very important to think about.

And then it's, well, what activities and assets do I need to have to execute against this business model? You know, do I need to have a hall? What size orchestra do I need? Do I need other things? What other assets do I have to have to generate kind of these revenues? And if you think about this in terms of kind of the traditional business model for a moment, right? The value proposition often is around, it's a local arts institution for orchestral performances, provider of community, and arts education programs, reliance on a major portion of contributed revenue, and the scope of assets, again, lots more than this, but certainly symphony performances, community education programs, all of the major operating activities that go along with it,

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This is a very short form of it, right? And when we looked across kind of at least the 20 kinds of largest orchestras, we actually found that, in our view, there were actually four business models. And we're going to walk you through each of those here. Let me see, what have I missed? Okay. So the second business model, which really builds upon the traditional one, is what we call the endowment enabled business model. And the key factor of this is, these are orchestras that, whether by chance or through focus, and we think it's more about focus, have established larger endowments, and therefore, get a much more significant portion of their revenue through endowment draws.

In most of these cases, more than 20 percent of their funding, and often up 30 percent actually come from endowment draws. And typically, these are orchestras that have endowments that are five times operating expenses, maybe more than that, along the way. Again, this is all data, this can be analyzed, you can see where you guys are. You will see where you are, maybe. And — and therefore, you know, there's a lot more emphasis on major gifts and philanthropy. And there's more emphasis on campaign staff that's devoted to endowment, right? You can have your campaign staff devoted to operations or endowment or both, or — how are you balancing that, right?

And there's a risk that if you don't focus on endowment, and you think you are, that it will all go to a kind of annual operations, which you may need, right? But if you want to get to an endowment focused model, there’s — there’s a way of doing that. So, and this clearly enables more sustainable financing for operations, you know, because you have more ongoing — an ongoing source of revenue as opposed to going out for — for donations kind of all of the time for all of it.

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So the third business model that we saw we're calling kind of diversified revenue business model. And so these are orchestras that typically get, let's say, 15 percent plus of their funding from non-orchestra revenue sources. So this could be presenting acts they have, a presenting organization that aren't the orchestras. They may have a hall, they may have multiple performance venues, they may rent those out for occasions, they may do all kinds of other things, they may present comedy acts, right? But those revenues help support the broader — the broader symphonic, the broader goals of that organization.

And in some cases, it's pretty significant. But they have to take on other activities, they have to maybe have hall management and venue management, they maybe have to have a presentation organization, presentation management, which is — which has many elements that are different than just kind of managing kind of the standing orchestra in that. So that's — that's another one. And again, I think, you know, we're seeing 15 percent plus funding for — for kind of some of these kinds of along the way.

And then the fourth model, which, you know, as we were talking about it, you can argue these models are all on a spectrum. And this fourth model is probably just the end of the spectrum. But there are a couple of orchestras that we say have kind of a super revenue model. And that is they both have very large endowment draws, and they have diversified revenues as well, right, through non-performances. So the couple of orchestras, at least kind of among — among the larger ones that we see here, are getting maybe 30 percent plus of their funding from the two sources of endowment draws, and kind of non-orchestral revenues, right?

So they have to manage all of that. It's much more diversified. And Zoe here will come up in a minute to kind of show you and walk through this. But — so we ended up with kind of — kind of four business models. And what we do think, and while this is not universally true, moving beyond the traditional model does usually provide some more sustainable kind of financial security along the way. It's not a one for one, there's idiosyncratic things, there's bad years, there's COVID, there's whatever. And that — and that these are, to some degree, you could say, well, gee, if I could just get a big endowment donation, then I would be in that business model category, and wouldn't it be great?

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Yeah, your orchestra would be great then. But like, you can also plan and move towards that, right, in a gradual way, by focus, but you've got to have that focus. You have to take that decision. And you may not be able to do everything to do that. You want to diversify your revenue; you may have to get a hall venue. Is that what you want? Do you want to set up that kind of management team? Do you want to set up that kind of a risk perhaps, right?

Do you have enough kind of donors that are willing to fund that part of it, right? These can be choices along the way. And this is not to say that, you know, the specific choices on programming, on marketing, and all that, they matter all, all of that matter. And they matter within the construct of — of kind of the business model here. So four business models. So I'm going to ask Zoe to kind of drive it from here. And we're going to talk more about this, show you some of this, and then move into some artistic kind of prominence points. Yeah.

ZOE MILLER: Okay, Hi, I'm Zoe. We are going to the big reveal of which of our top orchestras fit into these four categories. But before we do that, we're going to ask for some of your input on which ones you think might fit in there. So we're going to ask you to take out your phones and join. We have this fun live polling functionality. And we'll put up a few example orchestras. And we're going to ask you which categories or which business models are most appropriate for them.

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So some instructions here. You can go to a browser and go to PollEV.com. It'll ask for a code and then you will put in my name, Z-O-E Miller 360, and it should bring you to the poll soon. Or you can text the number 22333. And you will text that same code, Z-O-E Miller 360. And while you all set that up, I'll give a quick introduction about myself as well. So I, along with Bob, worked on last year’s engagement with the symphony to develop their 2030 strategic plan.

I also have my own background in music. I grew up and trained as a classical violinist for many years and studied here in Houston at the Shepherd School of Music at Rice University and have spent like the last decade going to many, many Houston Symphony performances. So it was very meaningful for me to get to work for an organization, and a topic that I love so much, and I am especially glad to share it with you all today. So I think we can jump into our poll now, and we're going to see if it works.

Oh, wow. We already have results coming in. So our first question here is, which of these following orchestras do we consider having an endowment enabled business model? And our choices are the New York Phil, the St. Louis Symphony, or the Cincinnati Symphony. And right now, it seems like New York is running away with it. I’ll maybe give us a few more seconds, because I see it changing a little bit, though I think New York has a strong lead maybe at this point. And I will reveal the answers to these shortly. I don't want to give it away just yet.

If we're ready to jump to the next one, we're going to ask about that super revenue business model. Which one of these — oh, okay. Which one of these orchestras fits into that model? And as a reminder, that's like the truly diversified business model, has some significant endowment, draws some significant nonperformance revenue. And it looks like Boston Symphony is a — is a strong winner here. Okay, great.

Well, thank you guys all for participating. And keep those phones handy, because we will have two more polling questions later on in the presentation. But now, I think we can go into our full results. So we — through our analysis, we mapped our top 20 orchestras to the four business models that we had identified. And we've also brought in here a breakdown of where the revenue comes from in these bars, and the numbers on them show the percentage of annual funding to each of those categories.

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So first, we'll start with the traditional model. The orchestras we've mapped in here are Baltimore, New York, Minnesota, and Houston. And this you can see through, you know, the bars that we have associated, follows roughly that two-third, one-third funding model, with roughly two-thirds coming from that right side, the contributed support and endowment draws, largely driven by the contributed support. And then on the blue side, for the earned revenue, the other third coming in there, mostly from performance revenue.

When we go to our next group, the endowment enabled orchestras, so the answer here was the St. Louis Symphony. We see that — and also in this category includes Chicago, San Francisco, Dallas, and Philadelphia. We see that a key difference in their revenue model here is that darker green bar, which represents endowment draws, is a lot bigger here. Especially in the case of St. Louis. Roughly one-third of their annual funding is coming from endowment draws alone. But when we look at the rest of the ones in this category, they all get like at least 20 percent from endowment draws.

When we move to our diversified earned revenue group, the orchestras fitting in here are Cincinnati and Los Angeles. And we see that the darker blue bar representing nonperformance earned revenue is a bit more significant here. Both of these orchestras, as you're all likely aware, have multiple halls, have present — presenting activities. So for the case of LA, that's able to bring in 14 percent of their annual funding, or if you're Cincinnati, that brings in 56 percent of your annual funding.

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And then when we look at this last category, the super revenue, we have Boston, which was the answer to our second question, Pittsburgh, and Cleveland Orchestras in this category. And we see that, you know, there's — they have some significant or material revenue streams coming across all of the categories we have here. I will say it's not a science. You might look at some of these and say, gosh, these look a little bit like the endowment enabled. But our assumptions here were that these super revenue orchestras, you know, when you added up the nonperformance revenue plus the endowment drawers they were getting, that — that was making up about a third of the funding for that year, which definitely takes some of the heat off of ticket sales and contributions.

So, after going through all that, what are some key takeaways from, you know, understanding some of the different business models out there? So first is that orchestras can and should be able to identify the own business model that they're operating in, understanding what some of the key operating components for them are, and looking to peers and understanding how their business models differ, and what — what's — how are their outcomes differing. From that, also looking to see what opportunities do I have to shift into another business model? And as Bob was saying, you know, it's very young likely that you might stumble into a new business model. These are things that need to be planned for and prioritized.

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And so when we talk about broader strategic planning, you know, prioritizing, moving towards another business model, if that is the outcome that you are looking for, should be included in that level of strategic priority. And finally, even though we looked at these four models, we don't think there is one like best model that every orchestra should be going towards. It's very dependent on the opportunities available to each orchestra, whether that's maybe, you know, moving into an endowment enabled, or looking to diversify your revenue, or maybe the traditional business model.

We will say, though, that there are some advantages to those additional models that have some — that build off of the traditional model, because the opportunity to have diversified revenue streams or sustainable revenue streams from a strong endowment can help weather some downturns. So now, we're going to go into our second topic for today, as Bob mentioned, where you have two — two topics that we want to cover through our orchestra analysis.

The next one is around artistic prominence of orchestras. This we felt was similar to orchestra business models, where there are some kinds of preconceived beliefs about, you know, everyone fits into the same business model. Similarly, with artistic prominence, we heard a lot of feedback that, you know, some orchestras just have key differentiators that they have that makes them more artistically prestigious than other top orchestras. And the typical ones you hear are, you know, what we kind of refer to as the big seven, like the seven largest orchestras, or the most historic ones. And, you know, these are all some of the ones that we already mentioned, like New York, Philly, Cleveland, Chicago, LA, San Francisco, Boston.

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And so many believe that there are these, you know, separators between this largest group and other top orchestra peers. So we really wanted to get into that more specifically. Some things we heard is that these orchestras might have a better ability to source and retain top musicians in their orchestra rosters, and that they're able to engage the most prestigious guest conductors and guest artists. And so we wanted to try and see if we could actually pull some data on that and see if — you know, is there really a difference in some of these things? And if there is, how big of a difference really is it?

So first, we're going to go into the orchestra roster. Some of the comings and goings of orchestra musicians. And first we'll — we'll go and talk about hiring orchestra musicians. So to do this, we studied — for this top group of like 15 or so orchestras here, we studied the musicians that they hired over a five-year period. So we wanted the number of musicians, but we also want to know where they got these musicians from. Specifically, we wanted to know, maybe were they new hires, which you'll see we have in the white bars. That means maybe they didn't have a previous professional orchestra job; they might have come straight from conservatory.

Or were they experienced orchestra musicians? And what category did they fall into? Did they come to this orchestra as a promotion of either position, meaning they left another orchestra to join this orchestra here to take on a principal role? This is in the light green. Did they take a promotion of organization? They took a new role with a larger orchestra. That's in the dark green. Did they make a lateral move? A similar role with a similarly sized orchestra, in light blue. Or a demotion moving into a smaller orchestra? In the dark blue.

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So really what we wanted to test here was, is there a big difference between the big seven, which are on the left-hand side of the page, versus other top orchestras and how they are sourcing their talent. You know, and to Bob's point earlier, are the big seven like getting like, you know, not as many new hires than other top orchestras? And just graphically, looking at this, you know, you can see that there's a healthy mix of where musicians are coming from across all of these orchestras.

When we specifically focus on new hires, we do see that the big seven orchestras hire about 35 percent of their new musicians without previous orchestra experience in that new hire bucket. It's a bit larger when we look at the right-hand side of the page for our other top orchestras. It's around 55 percent. So, you know, I guess you can say there's a little bit of a difference there. But even when you look at some of the top orchestras here, like Boston, half of their new musicians were considered new hires, or New York, 60 percent.

So even, you know, when you look at some of the largest, oldest orchestras, hiring new musicians is a common practice. And we don't think as — as a huge differentiator across these groups. On the flip side, we wanted to look at musician attrition. So musicians who were leaving these orchestras to go take other orchestra roles. So we did not include anyone retiring in this analysis. We specifically looked at people who moved to other orchestras. So here, we did a similar type of analysis, identifying how many fell into that category over a five-year time period, and then categorizing their moves.

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And so here, we wanted to test if the big seven orchestras had less attrition than the right side of the page, the other top orchestras we tested. So you'll see once again visually that there are some zeros on the left-hand side of the page. Many of those big seven orchestras did not lose any musicians to other orchestra jobs over that time period. And there are some slightly higher bars on the right-hand side of the page. However, I would say, overall, the orchestra attrition is quite low, considering our highest number was six over that five year time period.

And when you look at what is driving these moves, most of them are promotions of either position or organization, both for the big seven orchestras and other top orchestras, indicating that regardless of the orchestra size or type, similar career changers are driving turnover among musicians. So next, we want to go into how we analyzed the guest conductor and guest artists prominence across these orchestras. You might be wondering how we did that, because there is no official ranking of conductors out there. And there's quite a few probable methodologies you could do with like, I don't know, Grammys or things like that. So we wanted to go into how we defined a conductor or artist as prestigious.

So first, we had to identify all of the guest conductors and guest artists coming through and performing with each of these orchestras, once again, over a five-year time period. Once we had that list, we had to then figure out which ones were prestigious. And our assumption was that any of these conductors or artists who performed with a top orchestra or big seven orchestra more than once over this five-year time period would be considered prestigious in in our, you know, Zoe and Bob's ranking.

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And then from that, once we had that list, were able to apply a number to each of these orchestras to say, what percentage of conductors that they brought in during this time period do we think are prestigious? And also, beyond that we actually then kind of had our own ranking of who the most prestigious conductor or artist was. So that's going to be our next poll actually. We're going to see if you can guess who — who came to the top of our list. And so it should be the same instructions as before.

I'm not sure if maybe it's — it’s still on your phone. But if you need to log in again, the code's Z-O-E Miller 360. And let me know if you guys need me to jump back to the instructions. Okay, cool, I guess not. So our first question is, which of these guests conductors do you think we considered the most prestigious in our ranking system? So we have Gustavo Dudamel, Salonen, and Herbert Blomstedt. And I see Gustavo is really, really running away with it here. And so this one we — we won't wait to do a big reveal. We'll jump to it now.

So it's actually Herbert. He — he won with 22 big seven appearances in that timeframe. Let me see where — Gustavo was further down than I thought actually. He was seven. And Salinan and was somewhere in the middle. But so yeah, so basically, through our methodology, we were able to come up with this list of 120 guests conductors who fell into this prestigious category. When we looked at the top quartile of these, they all appeared with a big seven orchestra at least five times in that timeframe.

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So using this list of conductors, we’re able to create a numeric, I guess, you know, status or metric for each of these orchestras of how many of the conductors they brought in were considered prestigious. And we also have brought in some averages for the big seven group, once again, on that left-hand side of the page, versus other top orchestras on the right-hand side. So just visually, we can see there — there is a bit of a difference. You know, some of the big seven orchestras are a bit higher up there.

Our winner here was Philadelphia with 81 percent, followed by Cleveland with 80. However, Pittsburgh was quite high up there with 69. But when we look at the big seven orchestras, we see they fall kind of within the high sixties, low eighties range. And there's a bit more differentiation with our other top orchestra category, from the thirties up to the sixties. When we look at the averages, the average among big seven was 74 percent, and the average among the other top orchestras was 50 percent.

So we did see a little bit of differentiation there for guest conductors. And now we want to jump over to guest artists. So we're going to do a similar poll. See if you can identify who's the most prestigious piano soloist. And so here we have Emanuel Ax, Lang Lang, and Daniel Trifonov. Okay, I think this is actually maybe the most competitive one we've had yet. Okay, okay. They're all kind of kind of up there. But I think — okay, Lang Lang and Trifonov maybe have it. So next, we'll jump to what our results were here. And this was kind of a trick question. There was a tie between Trifonov and Emanuel Axe, who both had 24, and Lang Land I think had 11.

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Still — still not shabby. So when we came up with our list of prestigious guest artists, this was a bigger list, we had 270 artists that fell into this category, which I think is just a reflection of an orchestra as engaging more soloists over a given year than perhaps a guest conductor. When we looked at the top quartile of this group, they all appeared at a big seven orchestra at least six times in that five year timeframe. When we look to compare now the shares of prestigious guests artists across these orchestras, we see there's less of a clear divide. I mean, we see that LA has 83 percent with a high out of this group.

But when we look at the averages, we see that there's a narrower band now. The big seven average is 55 percent. Our other top orchestra average is close to 40 percent. So I think this is also a bit, you know, dependent of — because it's we have a larger group of guest artists that we're working with. So I think it maybe evens the playing field a bit. But we see that, you know, there's less division here, or less of a difference here than with the guest conductors.

And we also see that, you know, this gap, you know, it's kind of small, but it can be overcome when you think about your season programming. When you think about how many soloists you're bringing in in a given year. This could be maybe choosing one or two, or substituting, you know, for one or two of these prestigious guest artists in a given season, would boost your percentage and put you kind of, you know, maybe more towards that big seven or top seven category. It would not take too much in a given season. It's maybe more about kind of making those targeted choices.

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So wrapping up, we wanted to go through a checklist for consideration for orchestras, taking into mind some of the topics we covered today. The first one, going back to understanding the business model that you employ. Being able to identify, you know, which model are you currently operating in out of those four that we presented earlier, And seeing, how is that serving you, what are the outcomes you're getting from this financially with your audience, with your artistic satisfaction. And then going into, you know, what business model opportunities do you have available to you. What potential outcomes could those provide to you?

And then being sure to assess, you know, what's the willingness for change within your organization, within your patrons, within your board, for looking into other business model opportunities. And finally, is exploring opportunities for artistic enhancement. Assessing the satisfaction within your orchestra, the attrition rates. Seeing if there's ways to improve these through, you know, either offering, you know, chamber music opportunities or recital opportunities to musicians. And then looking for opportunities to enhance artistic collaborations through maybe more targeted engagement with popular guest artists, both to boost satisfaction within your audiences, and with also your orchestra musicians.

And so from that, I think we are ready to wrap up and get some of your questions for us after we kept asking you questions. And I also want to highlight that if you would like a report on all the findings we presented today, we actually have a paper up here presenting it. So we have quite a few copies. So please feel free after we go through the Q&A session to grab your own copy and peruse it at your leisure.

BOB: So what questions do you have?

ZOE: One in the back.

BOB: One way in the back. I'm going to come towards you with a mic because — because I'm tired of sitting.

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SPEAKER: Hey, thanks so much. So you talked about prominence, kind of a subjective measure of prominence, related primarily to musician satisfaction, internal cheerfulness. I'm curious about the other side. To what extent does prominence or perception of prominence track with either earned or contributed revenue? Does it matter to ticket buyers and to donors? And maybe is that different from city to city or institution to institution?

BOB: Yeah, so I would say we didn't look at that directly. It does matter some to I think patron satisfaction in aggregate. But do they notice a difference between 60 percent and 50 percent? Probably not. There has been some analysis done, and I don't know, John may know this, about do margins on performance track to prominence, right? And I think probably there are some at the top where it does, and a lot more in the middle where it's unclear, because it also then depends on repertoire, it depends on time of the season, etcetera. So I think while, hypothesis, you would think that the data is not completely clear on that.

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SPEAKER: Great presentation. Thank you so much. I was wondering if you saw any difference in resiliency between the business models?

BOB: Yeah, so if I interpret your question correctly, financial resiliency, meaning the ability to be kind of in — at least at break even, if not in a positive kind of surplus over time. So the answer to that is yes, but not universally true, right? We didn't show this, but if you kind of plot out kind of the — kind of the financial performance over time by business model type, you'll find more of the traditional models that will be in the red more than the endowment enabled or the diversified or super revenue, right?

So you know, the correlation is not 100 percent, because I think it's also symphony idiosyncratic. But I think structurally, I would say yes from what we've seen. And again, the data we used was really pre-COVID data, because COVID, like, and everything beyond that has skewed it and you haven't got — we don't have really a real good baseline since then.

But I would say yes, from resilience and from financial security. And certainly, when we looked at endowment enabled business models, right? It just allows you to get over your that — I mean, avoid getting kind of over your skis, right? And being able to kind of plan better kind of over time, and have that, versus every year we're kind of trying to generate, and at the last minute, kind of, you know, get it to match, please, you know? And so I think that for those orchestras that — that's clearly a big benefit in terms of then, how am I investing in an artist, how am I investing in the orchestra, how am I investing in all of the rest?

[0:40:08.4]

SPEAKER: Thank you so much. Have you seen the emergence or like any trends towards hybrid models? You know, so that orchestras can have like maybe two speeds to address different types of audiences? Is that being something that perhaps the data might show more prominently now? Like you just mentioned, the data is more on pre-COVID. But has that — was that a trend that perhaps, you know, was not analyzed? Or like, you know, something that you have seen emerging?

BOB: I mean, we didn't look at it per se. There are certainly some orchestras here that are, you know, doing smaller chamber performances and other things as well, and trying things. It didn't seem, at least in this period, to be in the main in terms of that. And we didn't look at all business model characteristics. I mean, orchestras are very complicated creatures, right, when it — when it comes down to it in the balance. But so, no, we kind of thought we might see more, and maybe we will. But again, I think there's still this like how to break out of the traditional model, but not leaving all the elements of the traditional model that actually make up many of the important value propositions to stakeholders right along the way.

SPEAKER: My question would be, you've clearly gathered a ton of data about these really large orchestras. What is the key takeaway, like at a high level, for those of us with smaller or medium sized orchestras? How can we use this data to better inform what we — the decisions we make?

BOB: Do you want to take this, Zoe?

[0:42:03.0]

ZOE: Yeah, I think the business models, even though we looked at them at kind of the maybe largest scale, like financially they have the largest budgets they're working with, I think the key elements for each of them can still be applied across, you know? Maybe the size of your endowment. Boston is a huge one, it's still bringing a significant portion of revenue for them. But, you know, for smaller orchestras, it can be, you know, scaled appropriately.

I think each of these business models, even looking at the diversified earned revenue. Yeah, LA has the Hollywood Bowl, but you know, looking into opportunities to do, you know, different space rentals, or looking into other opportunities to diversify your earned revenue. I think everything can be scaled to the organization you're working with.

BOB: Yeah, I mean, I would still consider what opportunities do you have within your scope, right? To diversify the revenue, right? Whether that be big or small to do that, in terms of, you know, all the artistic prominence stuff. And there was lots of other benchmarking we did too. You can debate, yeah, do I need to have a high number or not, right? I don't know. Is that important to your donor base? Is that important to kind of the audience and the patrons that you have?

If so, you know, you can boost a little, again, as Zoe said, by substituting if you — if you know that, right? And then you know, you would then be able to help justify, yeah, we're actually raising artistic prominence by doing this here, so support is more. If that's important, right? That's where there's not necessarily right or wrong to this. You've got to tap it in and kind of connect it, right? Into certainly your donor base and audiences.

[0:43:54.7]

SPEAKER: I'm intrigued with the diversified model. And for transparency, I'm a small, medium sized orchestra. Not me myself. Okay, just want to make sure. And I don't. So on the diversified revenue model, you mentioned being able to rent out a building. So many of us don't own a building. Are there other examples of diversification that you heard that might be of interest?

BOB: Yeah, I think presenting is certainly one, and many orchestras do — I mean, Houston does an occasional presenting, but it's not a presenting organization, meaning bringing in other acts that have nothing to do with the orchestra. But you're actually collecting revenue on that. Again, you have to manage the margin on it, but it doesn't tap into your orchestra days. It doesn't do that. But it can add a source of — a source of margin. Most cities, certainly Houston is one, have presenting organizations, right, for different genres, or that have mixed genres, right? And that's all they do to bring it in, and they have to have a certain amount of funding to kind of keep a smaller kind of staff going in to do that.

But, again, there's opportunities, I think, to do that, probably regardless of what size you are. But it's a different — there's a slightly different skill set in terms of being able — okay, I've got to pay for this act to come in, x amount. Am I going to be able to make this amount back? Is that right? Does this fit largely within the kind of mission and vision of stuff I'm trying to do? Or is it way outside that, and therefore, I'm just trying to grab some revenue, as opposed to also enhancing the rest of what I'm trying to do, right? So I think that's — I think that's clearly kind of one of them.

SPEAKER: Interesting, by the way, the model. So how did it inform the results in Houston for your 2030 plan?

[0:46:02.3]

BOB: Yeah, so we had a great discussion. Again, this was a co-creation exercise. And I remember John and other board members, senior staff, a couple of musicians, including Leo [?], that I play jazz with, you know, sitting around, talking about these business models. And you know, there was a discussion. Could we go for — I mean, Houston today, is a traditional — traditional model, has been a traditional model. Could we go for diversified revenue? What would that mean? Houston also doesn't own Jones Hall, right? So has no access to any of the other revenue streams that come from it or could come from it.

There are some other — there are some other venues that the symphony plays at that, I don't know, might be opportunities over time. We'll see. But I think there was also a view that, does that really fit into the mission of, like, we're going to run venues and manage venues and schedule other acts, and — that have nothing to do with, you know, the symphony's performance. But the model that did come out pretty clearly was the endowment enabled model. For — because for Houston, kind of the need to and the importance of trying to boost kind of where we are there, to have that more sustainability. So I think that that is — that's one of the key pillars of the strategic plan, is to move towards an endowment enabled business model. And there may be — again, there may be other opportunities along the way. But those are kind of further down and opportunistic, I would say. I don't know, John, if you would have a different view on that. Okay. Is there another hand?

SPEAKER: That was my questions. So very good. But I wanted — let's drill down a little bit about that. So endowment driven business model. I think that's actually an opportunity for a lot of orchestras. Okay, what's next then in terms of the strategic planning to get to that, you know, more of an endowment focused organization?

[0:47:58.4]

BOB: Yeah, so that informed — once you have that, then informed some of the initiatives that need to be undertaken at kind of the — I'd say, the staff level and kind of the management level, in terms of the development staff and the balance of where development staff takes time, or the amount of development staff, or the type of development staff. Or do I outsource some of that versus actually — like, it then kind of drives different decisions on what you might want to do around development staff, right?

So that's certainly one thing. I think it also then perhaps may emphasize the need to go out to seek major gifts, where maybe you were doing it before, but okay, there's a kind of greater kind of emphasis on it. But it's also then sustained over time, because you're not looking — if you get one big pop, great, but you know, you're not looking for that. You're looking, I think, to get kind of incrementally better. So in our case, that helps set goals, right? So there's a goal, there's a numeric goal on kind of what we're trying to strive for, there's kind of initiatives kind of behind that that kind of drive that as well.

And so those have to be tracked over time. Are we getting what we said? Are we deploying the people in the right way? Are we getting that kind of results for it? But that's versus before, where, yeah, okay, yes, of course, building the endowment would be good, and everybody knows that we're kind of trying to do it. But was it really as focused? Was it laser focused? Was it really kind of balanced, is that priority, right? Versus some other things that you do. And again, I don't think a strategic plan — while there can be initiatives, and some are kind of ongoing, there needs to be certain real points of emphasis that you think want to move you forward.

ZOE: Also — sorry, I'm just going to piggyback off that. In Houston's case, once — you know, focusing on we want to move towards endowment enabled, then it makes you think of things like, should we have — like start offering different endowment funds, touring endowment, community engagement endowment. And then also tying getting endowment funds to other strategic initiatives. So there was an idea about hiring additional string players and that — then we said that's directly tied to an endowment fund. We need to secure that endowment to then, you know, be able to advance other initiatives.

[0:50:07.6]

BOB: Yeah, that's a really important point. Because some of the initiatives are basically conditional initiatives, it's like we do it if we can get the funds to do it, if we can build an endowment to do this, so it can be sustainable, as opposed to in prior incarnations of strategic plan. Yeah, let's raise a big fund for the first one or two years to be implementation of the plan. But what happens after that, right? If you've taken on kind of ongoing costs in order to be able to support a bunch of initiatives. But as an ongoing operation, and well wait, we already had ongoing — it becomes really kind of murky, and I think, difficult to sustain that — that kind of focus kind of around it.

SPEAKER: Thank you so much for this. This is awesome. Kind of along what you were just talking about, in the diversified revenue analysis that you did, did you ever consider musicians doing things that weren't related to being in a core on the stage to be diversified revenue? Or is that orchestral operations and kind of normal revenue?

BOB: Yeah, I think we consider that mostly normal revenue within it. I don’t — I’m not even sure if it’s a material amount that — that kind of comes in, but it’s certainly considered within — within just that scope.

SPEAKER: I was wondering whether you looked at major gifts going to operations versus major gifts going to endowment. I know the St. Louis Symphony 25 years ago set out to increase its endowment so that they cover expenses with ticket sales, repeatable contributed revenue, and the dominant draw. The — eliminating the so-called structural deficit that's covered by one-time large gifts each year for the operating budget.

[0:52:19.3]

BOB: Yeah, I don't — I don't think we set up a rule around it necessarily. I do think it has been a consideration in guiding decisions in the last kind of — kind of period. There is a choice, though, in I think how the asks are made and what the asks are made for. And I think that's where there's also a shift in — in kind of balance. I mean, John, does that make kind of sense at the high level?

JOHN: This kind of one time major gifts, and whether they're designated to endowment or — yeah, I think the decision there is — is the move away from — you know, it used to be, when I got here six and a half years ago, our annual fund was raising about $16 million a year, and we raised four million of it in the last four weeks of the fiscal year. So that tells you what kind of asks we were making and where those gifts were going.

And now we raised less than one million of it in the last four weeks of the fiscal year. And we're raising over 20 million. So we've grown the annual fund, it's been sustainable growth. And we're now — in addition, to that annual fund, the target in the strategic planet, it sounds relatively modest, but for us it's a big lift. It's $10 million in endowment each year.

And you know, this is year one, we've hit that. But that's where we're — where we're really focused. And some of those people that used to be kind of the hail mary, hey, we've got — we're looking at a million-dollar deficit, can you fill that for us? Those are the people that are — that are helping us out with endowment now. And the other thing that I'd say, for those of you that run smaller orchestras, I came here from a much smaller organization. Our annual budget was around $5 million.

[0:54:20.2]

But we also focused on endowment there. And, you know, even at a smaller organization, you will have people that will give you 100,00, 250,000, 500,000 dollars for endowment. And a great place to go is, if you have a legacy society or a planned giving program, look at who's been in that legacy society for a number of years, decades. And you can go to them and say, you know, are you in a position to fund some of your legacy with current dollars, with money that we can put in the endowment now, and that can start helping your organization?

Oftentimes, people put you in their will 20 years ago. They haven't thought about it. They've got so much more capacity than when they put you in their will. And you know, the $100,000 they put you in 20 years ago, if you go have the conversation with them again, it can turn into, you know, multiple millions of dollars for your endowment. And so I really encourage people to do that. Don't just get in the will, and then rest on the laurels, but keep those relationships active and use an endowment campaign or the endowment focused conversation that, you know, Bob's talking about to have those conversations with those people. Because no matter what size organization, you know, you can get to that five times your annual budget by just having that focus and that support for doing that kind of work.

BOB: Other questions?

SPEAKER: Thank you. I don't know if we have enough data to be able to judge that, but do you feel like overall there's a sense of divergence when you look at these benchmarks — you know, these benchmarked organizations, the large ones? Like do you see the advantage of, you know, someone investing a million dollars 100 years ago in the endowment, or owning a venue, or etcetera? Do you see that as, you know, a divergent path, where it's tough to catch up when — you know, in terms of operating — operating budget sizes? Or do you think that there's actually more convergence where, you know, slightly smaller organizations are actually catching up when it comes to budget sizing growth?

[0:56:31.0]

BOB: Yeah, I don't think it's divergent yet. I think — I mean, I wonder how well it's really — I mean, I think the financial implications of some of these are recognized. But given, you know, what John's talking about, and just the pace of business over a year, are really priorities, proactive priorities being set and kind of focused on for that? And that's where I think probably there's no divergence yet. There's divergence perhaps with some, but not in the main. Because I don't know how purposeful each of these orchestras are being, or certainly the ones we didn't analyze.

SPEAKER: Hi. I thought one of the interesting things that came up that is a differentiator for orchestras is if you own your hall, or if it's you rent space. And along with that, some of the orchestras that have relationships with the local government and so forth, they get funding to support their operations. So I think that that's part of it. And it's — I don't think that there's one way or the other that is better. You know, of course, if you own it, you need to maintain it and so forth. But I just was wondering if you looked at that at all, as far as the different local support for operation?

[0:58:01.9]

BOB: Yeah, I think — I'm not sure we focused on the exact kind of funding dimension to it. But I do think it's true that some of the orchestras — this is true for Houston, I think, that are renting the hall, then do get certain support that kind of helps with that. The first piece of work that we did with the symphony, which was a while ago, was basically to look exactly at the hall question, right? It's like, should we own a hall? Should there be a second hall? We don't control Jones Hall. We don't control the schedule. There's a presenting organization that gets half the dates. Like we — you know, is this — you know, we can't control our destiny. Should we have something that we could control?

And I think the conclusion of that is, yeah, there's a lot more upside potential if you own the hall and can manage that and get all the revenues from it. But there's also a lot more downside potential. And being nonprofits as a whole, right, it's much more important usually to protect on the downside than to take risk on the upside, as opposed to, say, a commercial business. So I think that becomes a consideration, is just how much risk is there? How much certainty can you have that you can manage it, and you can schedule it?

Okay, maybe you can outsource some of that. But if you're on the hook for all the costs, and then COVID happens, then this happens, you know, then you're running into lots of deficits. So like that becomes a consideration as well, right? Certainly the access to having more of the revenue is a good thing. And certainly when — we analyzed this before. There were a number of symphonies that are benefiting from it and certainly they're still benefiting from it. But it's a serious undertaking, right? It's — it's adding a whole portion to your organization, right? With a different set of skill sets, and a different kind of risk return profile, which may or may not fit kind of, you know, what your — what your donors and your board and your stakeholders want to do.

[1:00:06.7]

ZOE: I think we still have maybe five minutes if there's any final question? Oh, we do have one. Sorry about that.

SPEAKER: Thank you. This is getting into a little more detail around kind of how you're looking at contributed revenue, and when you get into a multi-year, what I would call community impact funds, which could be competing against endowment contributions. But there — we're finding they're critical to funding things like our BIPOC musician fellowship, our artist in residence program. When you're looking at innovation, and you're looking across these business models, do you find one business model is more effective at funding innovation?

BOB: I don't know if we had a direct kind of outcome for that. We didn't — we did look at, you know, the community investments of all the orchestras as well, and a whole series of other things. I don't think we saw any correlation to it. But I don't know if we looked at it in that way. Certainly, I know as we thought about the strategic pillars for Houston, being part of the community and in the community and investing in the community, and certainly education program is very important, and I think Houston's numbers are like at the top in terms of like engagement if, like, we collected all that data, right?

And so certainly that's not an endowment kind of thing. Although endowment, if I had, it could do more, but there are certainly certain kinds of funds and programs and dedication and initiatives to that, right? That speaks to then the broader kind of, I think, strategic plan, and how are you actually allocating your operating funds, right? Across the different types of programs that you're there. And obviously, you may have some donors that say, I will donate if we do this, right?

Okay, I got that. But there'll be other donors that say, well, I'll donate and, I don't know, you put the judgment on it, right? Or they can be tucked into something, right? So that becomes another part of the strategic plan in terms of priorities, right? Of how to focus on that, given all the other things you're trying to do. Again, the business model is one kind of high-level view of it. There's so many levels below that, that we kind of got into, we didn't get to talk about here, but that are important to focus on too. One more. We'll take one more last one here.

SPEAKER: So I think we're, you know, dealing with business models that been proven over many years, right? Do you guys feel that there is an emerging model that has not been discussed, or something that might kind of down the road in five to 10 years? Because we all know this is all changing pretty fast for us, given the AI and all the other things that are affecting this. Is there something that you see on the horizon that could change for orchestras in the future and move away a little bit from this sort of very tight, you know, margin that we're all working with?

BOB: Good question. I don't have a good answer for you. I think if orchestras moved too far away from what orchestras do, then is it an orchestra anymore, right? In terms of business model. Maybe it's a music organization, maybe it's something else. But I think that also just comes back to a little bit of definition about what an orchestra is, and the main vision and mission of it, right? Because I think it would change the mission — it might change the mission and vision of it, probably.

[1:04:08.1]

So I — we didn't see it yet. I mean, I think what we see is orchestras that are trying to get back from COVID, right? And trying to get back to providing kind of the main mission they have that have explored and adapted to other things. And certainly Houston has as well. I mean, we do live streaming, we do regular live streaming now, that started during COVID. That helps the way — does that contribute some revenue? Yeah. Not sure how much at this point. It's a little bit, but you know, it's more for — it’s more for community outreach, audience broadening, reputation enhancement as well, and other things about it as well.

You know, will that other — will that substitute for in-person live performances? I don't know. I'm a little skeptical that under the kind of current definition of orchestras that — that it will. And I mean, what — again, what is — what is your — what is your mission then as an orchestra, right? It's unchanged. So that may be a different business model. But almost into — almost into a different category then. In my opinion.

Great. Well, I want to thank you all for coming. Those were great questions. I never expected to get half an hour's worth of questions around this. Again, we've got a paper that kind of has a lot of this. And I know a lot of you were taking pictures on it. I could have stopped you perhaps. But a lot of the data is kind of in here. And certainly, you know, happy to chat and follow up with any of you later as useful for you. Thank you.

[APPLAUSE]

END OF TRANSCRIPT # #