

CALIFORNIA ARTS AUDIENCE RESEARCH PROJECT

THE PERFORMING ARTS IN CALIFORNIA: REBUILDING, REPOSITIONING, RE-EMERGING

EXECUTIVE SUMMARY

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I. EXECUTIVE SUMMARY

This report was commissioned by the Walter & Elise Haas Fund, The William and Flora Hewlett Foundation and The James Irvine Foundation to provide research and counsel concerning prior, current and future audience-development initiatives in Los Angeles, San Diego, San Francisco and San Jose, California.¹

PURPOSE

Specifically, the research addressed the following questions:

- ◆ What factors affected audience-development efforts from 1992 to 1998 in the four cities across the performing arts in all disciplines and types of institutions?
- ◆ What influences have had an impact on the growth or lack of growth in audiences? What are the other changes in the marketplace—such as other leisure time use, increased complexity of community and drive time to events—that have affected audience development over the decade?
- ◆ What is the current market saturation, the evidence of crossover audience and the potential for more audience participation? What share of the current available seats for the performing arts go to tourists? What evidence is there of audiences moving from one organization to another from year to year, in effect creating an appearance of growth when the effect might simply be change.
- ◆ What worked and didn't work, over the decade, in audience development as undertaken by performing arts organizations? What was systemic and lasting, and what was temporary—and why? What conditions affected the outcomes? What were the results of performing arts organizations' attempts to grow, diversify and expand participation by their audiences? What was the return on the investment made? As a result of these efforts, what are the current levels of capacity, systems and budget for audience development? What was the impact on mission?
- ◆ As context, how do the four California markets compare to national markets of similar size concerning the questions “Is the market saturated?” and “Can performing arts attendance grow?”
- ◆ From the audience perspective, what are the motivators, barriers and factors affecting participation in the arts in the four California cities? What are the audience participation patterns?

¹ These regions were defined as the Metropolitan Areas (MA) for each city, with the exception of San Francisco, which also included Oakland. Metropolitan Areas are designated by the Federal Office of Management and Budget. An MA comprises one or more central counties and may also include one or more outlying counties that have close economic and social relationships with the central county.

METHODOLOGY

Several research methods were combined to answer these questions. Methods employed included empirical and qualitative research:

- ◆ Interviews with 114 arts organization managers and leaders;
- ◆ In-depth case study analysis of a representative sample of 43 organizations;
- ◆ Organizational surveys sent, faxed and e-mailed to all performing arts organizations and presenters in the four markets to gather empirical data on numbers of events, total seats available to sell and total purchased admissions;²
- ◆ Focus groups with regular and casual performing arts attendees in all four cities to ascertain attitudes affecting performing arts participation;³
- ◆ Analysis of databases of the audiences of 36 representative performing arts organizations in the four markets;⁴
- ◆ Geodemographic⁵ analysis of the four markets, including a benchmark comparison of the markets to other large cities in the United States, to analyze how potential audiences may differ from current audiences and to compare geodemographic findings to Survey of Public Participation in the Arts findings.
- ◆ Pre/post analysis of the impact of 139 audience-development grants.

It will help the reader to clarify two terms that are used throughout this report, as in many ways the use and implications of these terms are at the heart of the issues studied here.

Audience Development, as a term, is used here to broadly define various approaches to expanding participation in the art form or organization. For many in the arts field, audience development has been emphasized with social responsibility, in serving community through outreach efforts, free programming or education programs. For others, it has involved cultivating specific population groups that historically have not been active participants in an art form or organization. In other applications, audience development has been those efforts taken to extend or demystify an art form through means as varied as the creation of new work, the involvement of an audience in the rehearsal process and engagement in a mutual learning process with the performers, or

² Surveys were sent to 1,723 organizations from lists supplied by Arts Inc., the San Diego Commission for the Arts, the HAAS Fund, Theatre LA, Theater Bay Area and WESTAF. A total of 661 were subsequently identified as nonprofit, paid performance arts groups or presenters. A response rate of 40.39 percent yielded 267 surveys for analysis.

³ Number of participants per city: Los Angeles (30), San Diego (21), San Francisco (28) and San Jose (29).

⁴ Number of participating organizations per city: Los Angeles (11), San Diego (7), San Francisco (13) and San Jose (6).

⁵ Geodemography is the study of population characteristics such as gender, ethnicity, or interests set within the spatial context of geographic location.

performances or events in atypical environments. And finally, some in the arts have more narrowly defined audience development as the sales, advertising or public relations strategies and tactics used to win more attendance and participation.

How audience development has come to have such a broad range of meanings may have to do with the field's historic discomfort with the term and concept of marketing, as is described in this report. **Marketing** was brilliantly defined by Philip Kotler in 1992, when he said “the important tasks in marketing have to do with studying the market, segmenting it, targeting the groups you want to service, positioning yourself in the market and creating a service that meets needs out there. Advertising and selling are afterthoughts. The contrast between marketing and selling is whether you start with customers, or consumers, or groups you want to serve well—that's marketing.”⁶

More clinically, marketing has long been defined as the “4 Ps” of product, price, place and promotion. Recently, the marketing field has evolved toward a new set of defining terms, the so-called “5 Cs:” cross-cultural, cross-functional, cross-disciplinary, customercentric and competitor-focused.⁷ As noted in this report, the performing arts field's historic ambivalence concerning marketing even in its older definition has made it all the harder for many to become comfortable with the new definition given by the marketing field.

⁶ Kotler, Philip, in Managing the Non Profit Organization, by Peter Drucker. Harper Collins. 1990.

⁷ Day, George S., and David B. Montgomery. “Charting New Directions for Marketing.” The Journal of Marketing. American Marketing Association. Special Issue 1999.

II. AUDIENCE CHANGE OVER THE PAST DECADE

Analysis of the audience databases from 36 organizations strongly suggests change, evolution and decline in the audiences in all four California cities during the second half of the decade:⁸

- ◆ From 1996 to 1999, the geodemographic lifestyle clusters⁹ described as “affluent families,” which make up approximately 40 percent of the arts consumer households as represented on the databases of participating arts groups in all four cities, have been gradually replaced by other consumer types—newcomers to the performing arts. On average, the “affluent families” clusters within the total audience database has decreased 6.8 percent. The most affluent geodemographic clusters in each of the four markets have decreased as a share of the audience, while slightly less affluent market segments have increased as a share of the audience. The only market segment that has remained consistent in its share of the performing arts audience is the upscale, older, empty-nester market.
- ◆ In addition, performing arts audiences are diversifying. Overall, geodemographic clusters such as Thriving Immigrants and Upscale Urban Asians are making up more and more of the California audience, largely through purchase of single tickets and affiliations with a single organization. Affluent younger single consumers have gradually increased as a share of the audience, now making up a quarter of the ticket purchasers. Lower-income, urban residents are also gradually appearing in larger numbers on the more recent attendee profiles. For example, as urban Hispanic populations grow, so does their participation rate in the arts. All together, urban lower-income populations currently make up approximately 1 percent of the attendees for the four cities, a 0.2 percent increase each year from 1996 to 1999.
- ◆ As we compare audiences in the four cities, the greatest changes over the past three years appear to have been in San Jose, where there has been a 19.3 percent drop in representation by upscale and affluent family clusters and a corresponding significant increase in the percent of the overall performing arts audiences made up of Upscale Urban Asians, a 10.5 percent increase over three years, and Thriving

⁸ Performing arts organizations studied for this report, in general, were able to provide historical data on audiences from 1996 to 1999. The total number of audience records analyzed from the 1996-1997 season was 51,954; from the 1997-1998 season was 65,342; and from the 1998-1999 season was 85,544. Only 10,484 household records appeared across all three years.

⁹ The clustering system used for this analysis is A Classification of Residential Neighborhoods (ACORN), one of the leading market research clustering systems used in the United States. A detailed description of the clustering methods, as applied to this study, is included in the methodology addendum to the full report.

Immigrants, a 3.7 percent increase over three years. In Los Angeles, there has been some increase in younger affluent, urban audiences and among upscale immigrants, though not as significant. The San Diego audience appears to be the most static, with virtually no changes evident from 1996 to 1999. San Francisco also evidences a consistent flow of similar audiences year after year. Only two market segments in San Francisco show more than a 2 percent increase as a share of the performing audiences—Upscale Urban Asians and Urban Working Families.

It is important to note that the above changes in the nature of the audience are not consistent among all performing arts organizations. In each city, some performing arts organizations are significantly propelling the changing face of the audience. The case study analysis conducted for this study pointed time after time to a few organizations that have affected sometimes dramatic changes in the way they operate—from programming and targeted communications to e-commerce purchasing and elimination of series and other packaging restrictions. These are the entities where database analysis reveals that audiences have changed the most.

OTHER TRENDS AFFECTING PARTICIPATION CHANGE

The sometimes Draconian, sometimes subtle efforts performing arts organizations in California's four major markets have made in changing their audience composition reflect trends noted by arts managers and leaders throughout this study:

- ◆ First and most important, there is broad consensus among arts managers that an increase in product, including an increase in commercial, for-profit product, has flooded the market with more performing arts options than ever. This makes it imperative for performing arts organizations to become more effective and more competitive in winning their slice of the market. Arts leaders in all four communities note the opening of new facilities, the start-up of major new institutions and the continuing development of market-savvy smaller organizations, each offering the market new programming and stretching existing organizations to offer more of their own programming to maintain a competitive position and image in the city. As one performing arts institution executive director stated, “Artist contracts have led to more and more performances to the point where there is an oversaturated market at the same time as diminished demand.” His perception, at least, is that there is too much product and at the same time, erosion of consumer demand.
- ◆ Examples of new entities in each city range from San Francisco's Yerba Buena Center for the Arts and Z Space Studio to the Los Angeles Pan African Film & Art Festival, the San Jose Mexican Cultural Plaza and the San Diego Ballet. In Los Angeles County alone, there are 26 additional performing arts venues since 1992. At

least one more venue, a renovated vaudeville theater, is currently on the drawing boards in the county, and additional large-scale presenting facilities are also reportedly in planning stages in the bedroom communities that extend beyond Los Angeles County.

- ◆ Many new nonprofit entities are contributing directly to the perception noted by California arts leaders of increased commercial product through their own increased presentation of and reliance on commercial, entertainment-oriented acts. In the effort to fill more seats, there is “entertainment” versus “arts” evident in each city, specifically among multi-arts presenters found on college and university campuses and by “downtown” multi-arts presenters, as well.
- ◆ As evidenced through this study’s focus groups of performing arts attendees, consumers are increasingly blurring the lines between entertainment and performing arts, with potential long-term impacts on fund-raising as well as on the ways the performing arts have traditionally been packaged. More diverse entertainment programming within presenting series is leading presenters away from reliance on subscriptions. Some presenters, particularly in the Los Angeles market, no longer sell series tickets at all.
- ◆ During the second half of the ‘90s, there also was an increase in available touring Broadway products, a cyclical phenomenon that now appears to be in decline with limited new productions available from Broadway in the past two years. Some California nonprofits benefited from this during the mid-1990s: For example, Center Theatre Group, a Los Angeles nonprofit, toured its production of Phantom of the Opera, a commercial show, throughout the state.
- ◆ Finally, organizations that haven’t kept pace with changing market interests have also found it harder and harder to compete with commercial venues and packaging. Ironically, this even includes once-edgy performance art organizations whose original audiences have grown to middle age and who now are seeking to attract a new generation of youthful audience members. MTV, acts such as Cirque du Soleil and cutting-edge club venues have drawn the new young audience away from the very types of nonprofit organizations that were founded in the ‘70s to satisfy the young-adult market’s demands for cutting-edge product.

THE APPARENTLY DIMINISHING AUDIENCE

With all the additional commercial and nonprofit product reported in the market, the lack of consistent historical audience data makes it nearly impossible to determine conclusively if the overall size of the nonprofit arts audience grew, diminished or stayed the same over the course of the decade. However, a series of discrete data sets point to an average decline in overall audience size at the events of most—though not all—performing arts organizations in the four cities:

- ◆ Three quarters of the performing arts institutions studied in depth reported significant audience decline coupled with an overall decrease in subscribers beginning in the 1994-'95 season. One Los Angeles theater reported losing 15,000 subscribers mid-decade. A San Francisco theater lost 2,000 subscribers, and other Bay Area companies lost nearly as many. Similar losses of thousands of subscribers were reported by numerous campus-based, classical music and dance organizations throughout the study area, for wide-ranging programmatic fare. In personal interviews with representatives of performing arts disciplines, some executive and marketing directors would not reveal the exact extent of audience attrition their organizations faced over the decade. Others could not. However, it can be reported that with very few exceptions, the 43 case organizations studied in depth for this analysis described net subscription decline by the end of the decade. Many report that at the end of the decade, single-ticket sales were beginning to reach the level necessary to offset the subscription declines, but case study research suggests that at least half of the organizations studied—broadly representative of the diversity of the performing arts in size and discipline—have not been able to make up subscription losses with single-ticket sales.
- ◆ At the end of the decade, the actual count of seats sold, in aggregate, was startlingly low (based on significant reported drops in subscriptions and often, in addition, single-ticket sales) appearing—based on anecdotal evidence—to be related to both the abundance of product available and the marked trend away from subscription purchase to a pick-and-choose consumer habit. Based on a comparison of seats sold to seats available from 267 performing arts organizations in the four cities, organizations sell, on average, only 68 percent of available seats for their performances, significantly below the goals most presenters and executives set for their organizations.¹⁰ Based on the total number of available versus empty seats, San

¹⁰ The data regarding average available seats was examined 14 different ways and the methodology tested in an attempt to isolate factors that may be affecting the overall percentage of seats sold in ways that have gone undetected. While searching for elusive covariates, a few patterns of interest surfaced, namely that the size of the potential venues were, on average, 25 percent larger than apparently appropriate. One train of thought explains this percentage as a growth margin incorporated in facility bookings to meet surges in demand. Accounting for this margin, the average percentage of seats sold changes. If we look at Los Angeles, where the margin of unsold seats was highest, the corrected number is 76.69 percent of seats sold. As a note of caution, 68 percent of the seats sold in

Francisco has fewer empty seats than anywhere else (less than 13 percent, aggregate), compared to more than 47 percent empty seats, in aggregate, in Los Angeles. Looking at the individual organizations studied by city, using *actual* seats sold and seats available, performing arts organizations in San Francisco are only slightly outselling organizations in Los Angeles. These statistics mesh consistently with the data reported through the case-study dialogues with organizations: It is hard to find a performing arts organization that consistently exceeds 75 percent of capacity.¹¹

- ◆ This means that, in aggregate, there is room to grow the audience for the existing amount of product. Based on the sample of 267 organizations that provided audience data for this study alone, the total number of admissions available to be sold in 1999 in the four markets was 11,817,852, and the total admissions actually sold was 8,094,927. Without adding additional events, performances or venues, the Los Angeles admissions could grow by 2.31 million per year. In San Diego, the audience could grow by 570,000 per year. In San Jose, that figure is 388,000 per year, and in the Bay Area, 533,684 per year. In each city, performing arts organizations estimate that area residents purchase approximately 85 percent of all seats. Maintaining that ratio, 1.96 million more Los Angeles residents could buy tickets; 484,500 more San Diego residents could attend; 329,000 Silicon Valley residents could buy tickets for San Jose events, and 434,000 more Bay Area residents could attend.
- ◆ Qualitative research done for this study suggests that the apparent diminishment of the audience may be evidenced through decreased frequency of participation. Cultural attendees interviewed in all four cities noted dropping back on the number of subscriptions they carried, with most starting to drop subscriptions mid-decade—just the time when performing arts institutions in all four cities found their subscription numbers dropping off the cliff. The consumers in the focus groups reported a consensus behavioral shift towards a “pick-and-choose” attitude. Those

the metropolitan areas of the four cities comes from *actual* numbers; the weighted value of 81 percent, as statistically reliable as it may be, is nonetheless rooted in inference. Sample characteristics of the 276 organizations mirror the budget, size and season characteristics of arts organizations and venues offering performances with paid admission in the four cities. Ninety-five percent of the database is directly proportional in size and geography to the universe of organizations operating in the four-city area between 1997 and 1999. Because the sample is representative of the diversity and span of the universe, the percentages as reported could be generally assumed to hold steady if data was available on the full universe, while the numbers of events, available seats and tickets sold would obviously increase proportionately.

¹¹ In gathering this data, organizations were asked to, in their opinion, remove unsaleable seats and house seats. There is no reliable data set of national statistics for performing arts as a point of comparison. However, ArtsMarket interviews with highly successful presenting organizations else where in the United States point to their similar experiences with audience decline over the decade. Many who had regularly noted sell-out performances now report 60-75% capacity as their “new reality.”

who carried multiple subscriptions may be down to one or two. Those who carried only one or two subscriptions now purchase only single tickets.

THE GOOD AND BAD NEWS OF AUDIENCE CHANGE

As the above findings profile, the news is both good and bad at the end of the decade. There is evidence of demographic evolution in the nature of the performing arts audiences, particularly seen in the audiences of some organizations and in some communities. This evolution is toward a generally more culturally diverse and younger market, though still largely characterized as highly educated, upscale and affluent. The market segment that has diminished the most is the upscale market of households with children, generally over age 40. Seniors continue to hold the same share of the audience.

These demographic changes are welcomed by some performing arts presenters who are trying to match their programming to the changing demographics of their marketplaces. Some institutions have done superb work in matching their range of programming and related audience relations and communications to this demographically different audience and are reaping the rewards. Others, especially those less equipped to make programmatic changes and less resilient in marketing, continue to view the changes with apprehension. Their specific experience in audience attrition over the decade has shown the new audience does not make up in size or frequency of attendance for the more consistent subscriber audience these organizations had in the early years of the decade.

STRATEGIES, TECHNIQUES AND APPROACHES THAT HAVE WORKED IN BUILDING AUDIENCES

Organizations that have successfully changed their audiences either demographically, socio-economically or that have changed themselves to accommodate audiences differently, for example by placing more emphasis on last-minute single-ticket purchase, went through metamorphoses in thinking, business practices and expectations. Their success can be measured in audience growth, diversification and retention. The changes made were visible among organizations in all four cities:

- ✓ They became comfortable with and embraced the full concept of marketing. They began focusing on what their audiences, as consumers, wanted from the event experience and brought this perspective to program planning discussions. Marketing began to move out of what one executive director called its traditional

“silo” and began to be considered as a comprehensive part of everything the organization did.

- ✓ Successful organizations began listening to their markets through more consistent qualitative and quantitative research and then started acting upon what they heard quickly and with agility.
Some created savvy, entrepreneurial marketing committees consisting of audience members. Some tapped top marketing professionals for staff leadership, bringing marketing to a similar level as development capacity in the organization.
- ✓ They developed the systems capacity to manage customer relationship marketing (known by marketers as CRM, or 1to1 marketing) programs. Organizations began behaving toward customers and prospects individually based on data they collected, focusing on marketing to each consumer using information collected and customized to strengthen the relationship.
- ✓ Customer service became their mantra and served as a key strategy for aggressive ticket sales. As one director noted, “Staff had to start thinking like a for-profit and quickly gain comfort with the mindset that tickets must be aggressively sold, that we are competing in a marketplace for an audience.”
- ✓ Some cut back on product to increase demand.
- ✓ Many carefully refined and defined their niche, in some cases significantly repositioning themselves and their programming to gain a more advantageous market niche. They test-marketed until they found the right formulas and the right position for their programming.
- ✓ A number communicated very differently. They changed their image and messages away from the intimidating aura of an “insiders club” to something far more inviting. They got rid of the program notes that could only be understood by experts and communicated so that the entire audience could understand.
- ✓ They began using Web-based communications to win and maintain relations with an entirely new generation of audiences, the Web-based consumers, offering last-minute special discounts and packages via the Web. They began tracking the information on these new consumers.
- ✓ Many dropped restrictive packaging that required subscriptions — even mini-subscriptions — no ticket return policies and other conditions that had worked financially to their favor but were turn-offs to the audience.
- ✓ They showed their audiences they genuinely cared about them. Organizations that were once artistically aloof started hosting potluck dinners for their audiences. Others began doing the unthinkable: offering money-back guarantees if people didn’t like the program. Still others made sure their entire staff became bilingual. Even big institutions, typically less flexible in responding to individual audience members, started treating single-ticket buyers with the same kind of immediate attention they once reserved only for donors.

All of these elements of success were critical to the organizations that pulled themselves back from audience declines, eroding market share or from a static audience. Two other

factors overshadow all of these, however. First was willingness to change fundamental elements of the programming mix, keeping the audience perceptions and needs in mind. Next was a commitment to act on all the changes consistently, year after year. They realized that consistency is key to building brand equity with their new audiences as well as with their longtime audiences.

And most important of all, they addressed artistic quality. Every organization that pulled back from the brink of disaster, and that subsequently studied the reasons for declined market share, found that they needed to increase artistic quality and the overall experience of attending the artistic event. In a crowded, competitive marketplace, “good” was no longer enough. Consistent excellence was voiced through the qualitative research as the baseline consumer expectation. The implications for performing arts organizations bringing the same productions back into repertory too frequently or inserting less-interesting fare to cut costs midway through the season were clear.

WHAT DIDN'T WORK

- ✓ Short-term advertising campaigns, even when highly visible and funded with major budgets, did not transform market position or yield long-term results for any of the organizations that tried this approach. Most saw a temporary increase in ticket purchase, only.
- ✓ Similarly, numerous two- or three-year efforts to develop a “programming line” to appeal to a potential, new audience gained audience members for a few events but lost them when the programming grants ran out and the organizations returned to their old programming mix.
- ✓ Organizations that expanded seasons and added offerings as the driving force for audience development found that using an abundance of product to create a bigger image in the market didn't work unless they had previously built market demand.
- ✓ Organizations that sought to maintain audiences by the artistry alone — the purity of the experience, not tainted with too much promotion or any commercial-feeling messages — have a loyal but constantly shrinking audience. Among these are organizations that invested in some of the approaches that might be called “audience development”—outreach, education and community relations—in nature in an effort to side-step comprehensive marketing.
- ✓ Organizations that didn't change their programming though their competition changed (they didn't keep up with evolving audience tastes and interests) lost out, even losing audiences to for-profit entertainment. This was particularly notable among once-edgy organizations: Their audiences have moved to clubs, to commercial acts and to MTV. Meanwhile, other art forms, for example, opera, now claim to be winning the MTV generation.

- ✓ Organizations that chose not to evolve into a more holistic approach to marketing but rather to maintain it more as a ticket sales and public relations function with little structural support, lack of systems and lack of skilled marketing professionals have slid further behind in both market share and the ability to gain new audiences.

OBSERVATIONS: OTHER FACTORS AFFECTING THE MARKETPLACE FOR THE PERFORMING ARTS

The backdrop for these audience trends and the responsive marketing actions taken by performing arts organizations is the last two decades' overwhelming impact on the financial and operational model long held by the performing arts in America. It was a model in which solid philanthropic and governmental support provided the majority of operating funds needed by cultural organizations, and an equally solid and loyal subscription audience provided the balance of funds, largely through season-ticket sales. Both funding sources were stable; both commitments long-term.

That equation was rocked dramatically by the mid-1990s. The casualty of the “culture wars” of the late ‘80s and early ‘90s, federal funding for the arts through the National Endowment for the Arts dropped from its high of \$175 million in FY ‘92 to \$99 million in FY ‘96. Even before that drop came reductions in state allocations. Aggregate funding to state arts councils dropped \$57 million from FY ‘90 to FY‘92.¹²

Shaken by the controversy, negative publicity or unable to respond, local government agencies and the private sector couldn't consistently fill the gap. For many organizations studied, individual donations remained flat for many years, and corporate support actually went down through the decade. For the first time in the performing arts' modern history — i.e., in the era of public funding — many performing arts organization believed that the financial model for solvency had to change, and change fast.¹³ Even California performing arts institutions not directly shaken by these events — those with large endowments or those primarily large institutions for which government grants had made up only a fraction of contributed income — responded to the sea change and at the very least changed their philosophies, attitudes and expectations.

Thus, in response to the mercurial nature of funding through the early and mid-‘90s, performing arts organizations of all sizes began — often for the first time — changing

¹² Source: State Arts Agency Public Funding Sourcebook.

¹³ Arts organizations in San Francisco fared better than those anywhere else in California, given the strong continued support from the Grants for the Arts of the San Francisco Hotel Tax Fund and the support of local foundations. This continued strong funding may be a direct cause of the generally stronger condition and larger audiences evidenced among San Francisco organizations as compared to similar organizations studied in the other three metropolitan areas.

their financial operating ratios, looking to a higher percentage of earned income to offset lower or static contributed income. Over half of the performing arts organizations studied in the four cities began setting much higher earned income goals — up to 80 percent of revenues for some organizations. This set off a chain reaction that many performing arts executives credit as leading to their gradual acceptance of new, far more sophisticated marketing practices. At the same time, though, most admit not having met these income goals because their marketing capacity was lacking. Others, caught in organizational systems unwilling or unable to change, credit this chain reaction as leading to their increasingly weak operating, market and financial positions.

Those interviewed through the case studies suggested that four new realities hit them nearly simultaneously during the decade: The way their organizations responded to these realities predicted their level of success in maintaining or growing audience and market share.

1. One was the changing audience, as described previously.
2. Another was the change taking place in the consumer marketing field as a whole, requiring that arts organizations quickly gain this new level of consumer marketing savvy to compete for an audience in the complex world of leisure time/entertainment options.
3. The third was internal, organizational difficulty in coming to terms with marketing from a philosophical, cultural and structural standpoint. Marketing was historically positioned as less important than development, was always the first to have its budget cut and was the least understood as an organizational-wide function. The changes in consumer marketing as a field could only be introduced into the performing arts if the arts institutions themselves were able to change. This sparked internal struggles within many of the case study institutions, often with casualties of staff turnovers and revolving doors for key positions.
4. The fourth factor affecting audience development was the changed ecosystem affecting arts marketing: soaring advertising rates, erosion or disruption in subsidy for college campus presenters and increased competition from newly developed nonprofit presenters and organizations. The ecosystem evidenced changing community attitudes and values. San Jose, with 600 new corporations per year, exhibits this type of challenge: Its business elite has highly entrepreneurial instincts and high expectations for nonprofits. As learned by San Jose arts organizations over the decade and reported in this study, the moment these leaders sense the arts aren't meeting their corporate standards for growth and stability, they take their resources and influence to support other causes. Many of those interviewed noted that this attitude extends to individual donors as well, as even longtime subscribers have shifted their thinking away from being boosters to being consumers. One executive said, "It's an ugly fact, but true that the message 'you should support the arts' doesn't work anymore."

California performing arts were particularly hard hit through environmental and social upheaval. The Loma Prieta (1989) and Northridge (1994) earthquakes were bookends to the Oakland fires (1991) and the Los Angeles riots (1992). For some institutions, the long-term impact was notable. When the War Memorial Opera House closed for repairs, mid-decade after the Loma Prieta earthquake, both the San Francisco Ballet and the San Francisco Opera were displaced for 18 months in 1996, taking their audiences to temporary venues. It cost the institutions millions to make the yearlong move — in advertising, adapting productions and operations and lost ticket sales. In Los Angeles, the UCLA Performing Arts Series was displaced, ending up in 14 different locations between January 1994 and 1998 while its home facilities were rebuilt. Lula Washington Dance Theatre’s rehearsal and teaching facilities were lost, terminating tuition as the company’s major revenue stream. ACT in San Francisco literally lost its roof, and Actor’s Alley Theater in North Hollywood was just about to move into its newly renovated facility when the earthquake damaged the building, forcing it to start all over again.

Particularly in Los Angeles, the economy was a serious source of change, with a net loss of jobs from 1994 to 1999 of 149,000, and the out-migration of affluent white-collar workers displaced with the downsized aerospace industry. The San Jose/San Francisco area felt a different crisis: the rapidly escalating cost of living associated with the booming Silicon Valley, with housing costs alone increasing at up to five times the national average.¹⁴

Arts managers consistently noted these economic factors, along with the environmental issues, as leading to a behavior and perception shift by audience members. While audiences did come back to downtown venues once highways and bridges were rebuilt, marketers felt they could sense a cause/effect relationship between the temporary disruption of attendance patterns, the increased high costs of living and the sudden and often significant downturn in subscription renewals.

¹⁴ Source: Scan/US basic demographics. Silicon Valley costs are five times the U.S. average.

III. IS THE ARTS MARKETPLACE OVERBUILT?

The research finds there is no overarching answer to this question.

- ◆ Overbuilding through increasing product, and through new venue development throughout the decade may be evident through the ratio of unsold to sold seats for the performing arts noted previously, though due to lack of historical data, this can only be a hypothesis.
- ◆ The market may have reached a point of saturation based on the significant drops in subscriptions noted by major performing arts institutions in each city over the second half of the decade. This is a national, not only a local theme.
- ◆ The longitudinal drop in the share of key arts-participant clusters, revealed through the study of historical ticket sales data provided by the study participants suggests a pattern of participation attrition by consumer groups once considered the core audience. Losing these groups suggests a growing disconnect between the product and their interests.
- ◆ Finally, there are appearances of a saturated market for some of the largest performing arts institutions based on the lack of success in audience growth for institutions at the top of the financial strata: Those who spent more than \$5 million on marketing sold 57.6 percent of available seats (1998-99) compared to those spending between \$1 and \$5 million, who sold an average of 79.7 percent seats across the four markets (1998-99).

◆

OPPORTUNITIES FOR GROWTH

Further analysis of cause and effect suggest that these indicators may be more reflective of taste and behavior changes by consumer clusters and the need for a method and means for addressing these changes by the industry—not a death-knell suggestion that there are too many performing arts organizations.

What may be the case is too much similar product targeted too narrowly to the same market segment — the traditional performing arts audience. In California, as elsewhere in the United States, the traditional audience is, in reality, shrinking. Picking up on the changes, the 1997 Survey of Public Participation in the Arts identified a major trend in the increase in attendance by young adults age 18-24, as well as growing racial and ethnic diversity. For this study, the researchers compared the traditionally noted audience—profiled as frequent attendees through the SPPA rolling survey—with a larger potential audience identified as somewhat affiliated with the performing arts both by the SPPA characterization of occasional participants and in more detail through this study's analysis of casual participants based on indexing. These are households

that index above average for affiliation with the performing arts but less than the top strata, evidenced through indexing, of the most affiliated households. It is possible to glean information about this larger audience through a data set¹⁵ that uses indexing¹⁶ to indicate the strength of correlation between demographic and consumer characteristics and performing arts participation.

Not surprisingly, the characteristics of the traditional and well-studied existing audience are mirrored by the characteristics of the population indexing the highest for attendance, and these are the clusters in which we see attrition through our multi-year analysis of organizational databases. In other words, the findings suggest that the core, loyal audience is shrinking and is likely to continue to shrink as a part of the whole audience. This may well mean that this market segment is close to tapped out or saturated.

The opportunity to expand the audience for the performing arts — and its nature — is best seen through the population that indexes almost as high as the current, identified audience: The above-mentioned Best Potential Audience. This is the audience that is beginning to emerge and grow as a share of the overall databases, through our longitudinal analysis.

¹⁵ The data set utilized comes from the Simmons Survey of the American Household. The Simmons sample of 226,399 respondents per year queried on “attendance at live theater, dance, music” is 81.67% larger than the 1997 SPPA sample, making it far more reliable when weighted to the local level. The Simmons survey is also conducted as a continuous stream of test/retest, making it more reliable than a periodic poll.

¹⁶ Indexing is calculated through a multistep process. First, a range of multivariate statistical methods create clusters, which group consumers based on their similarities derived from more than 150 consumer and demographic characteristics. An advantage of this, as compared to a periodic survey, is the continuous ability to verify, through cross-validation, the current nature of the consumers and the current market conditions. Indexes are then calculated for the way each cluster, representing a grouping of households with the same range of characteristics, acts in each market. The following shows the equation for calculating the index:

A *Local Consumption Rate*_t or index can be computed as the ratio of estimated consumers for a product or service—in this case performing arts attendance—to total households or adults in the area. The choice of adult population or households as the base is consistent with the survey question.

$$\text{Local Consumption Rate (\%)}_t = \frac{\text{Expected Number of Consumers}_t}{\text{Adult Population}_t}$$

For trade area “t” of the ACORN segment of the Purchase Potential Index of adults:

$$\text{PPI}_t = \frac{\text{Local Consumption Rate}_t}{\text{US Consumption Rate}} \times 100$$

The index is defined as a percent of the local versus the U.S. consumption rate. The local consumption rate is the proportion of consumers to total adult population. Indexes are read as follows: 100 is the statistical average derived from the full sample, or the U.S. average. An index that is above average, for example 125, should be read as 25% as likely as average to have the stated consumer behavior. The same for indexes less than 100 — i.e. an index of 90 would be 10% less likely than average to have the behavior.

The Best Potential Audience, represented by clusters indexing from 101-148 for “attends live theater, dance, music,” is characterized by the types of demographics being seen by more and more performing arts organizations as they adjust to their marketplaces. Clusters included in this group, as named by ACORN (A Classification of Residential Neighborhoods), one of the leading clustering systems used by marketers, suggest their diversity. They include Urban Professional Couples, Enterprising Young Singles, Upscale Urban Asians, Thriving Immigrants, as well as clusters leaving the city and moving farther to the exurbs, such as Semirural Households.

To determine the number of “best potential households” that are currently untapped, the researchers worked with a representative sample of databases from 36 California arts organizations. Certainly, the analysis eloquently shows the strong affiliation of the expected, traditional arts clusters with the arts organizations in their cities. But more importantly, it also hints at how arts organizations are beginning to reach into the clusters defined as the Best Potential Audience based on their indexes. This hint of affiliation is positive, suggesting more opportunity ahead and showing that there is a market segment that is not fully tapped, not fully saturated. Gaining a larger share of this market will be the challenge for many performing arts organizations. Of note, there are one or two large institutions in each of the four markets that are making significant progress in transforming their audiences to see a larger share of this “best potential market” and are, as a result, beginning to realize annual increases in the total number of seats sold. The marketplace for a narrowly defined audience, matched to a similarly narrow product range, may well be overbuilt. But there is great opportunity ahead for any organization that seeks a niche with this Best Potential Audience and matches its market position accordingly.

The following charts show the percentage of households in each of the four cities, starting with Los Angeles, that represent Traditional Audiences, Best Potential Audiences and Underinterested Audiences. In reading the charts, “n” represents the number of households in the strata. The last column represents actual audience database households studied in each geographic area, as compiled into a study database from the databases of a representative sample of arts organizations.

Columns are discrete and should be read down. For example, in looking at the first chart, of Los Angeles, 4.2 percent of the total LA households are categorized as Top One Percent, and 16.2 percent of the households indexing over 150 for performing arts attendance — which we have named the Traditional Audience — are Top One Percent households. The percentage of the compiled research database of 173,385 households categorized as Top One Percent coincidentally is also 16.2 percent, suggesting that the analyzed combined databases’ percentage of Top One Percent households mirrors the proportion that the Top One Percent households make up of the Traditional Audience, as calculated by the researchers.

When looking at data presented this way, researchers compare percentages between data sets to determine if a cluster is under-represented, over-represented or mirrors its percentage as found in the geographic area as a whole. Thus, looking at the Top One Percent cluster in Los Angeles, the cluster is over-represented as compared to its share of the population as a whole, 4:1 within the calculated Traditional Audience and 4:1 as found within the actual compiled study database.

The calculated Traditional, Best Potential and Underinterested Audience percentages are derived from the indexes as noted in footnote 10. The percentages found in the far right column are the actual percentage as found by analyzing the compiled study databases of the representative arts organizations. The study database was compiled to test the extent to which performing arts organizations are actually reaching the various clusters identified through indexing as Traditional, Best Potential or Underinterested.

The closer these come to matching the percentage that the cluster exhibits in the market, the closer the database comes to mirroring the population spread.

From the analysis, we see the most inroads into several of the Best Potential Audience clusters being made by performing arts organizations in San Jose and San Francisco.

The following charts include only those clusters that appear on the databases of the sample of 36 performing arts organizations and/or clusters represented in the Traditional and Best Potential Audience groupings. (See Volume III for listing of participating organizations.)

Figure #1: ACORN Profile of Identified and Potential Los Angeles Audiences

| | Total (n=3,080,269)¹⁷ | Traditional Audience Index 150+ (n=800,534) | Best Potential Audience Index 101-148 (n=817,090) | Underinterested Audience Index <101 (n=1,462,645) | Actual Current Audience from Database (n=173,385)¹⁸ |
|--------------------------------|---|--|--|---|---|
| AFFLUENT FAMILIES | | | | | |
| Top One Percent | 4.2% | 16.2% | - | - | 16.2% |
| Wealthy Seaboard Suburbs | 8.8% | 34.0% | - | - | 16.9% |
| Upper Income Empty Nesters | .3% | - | 1.1% | - | .5% |
| Successful Suburbanites | 1.8% | - | 6.7% | - | 1.9% |
| Prosperous Baby Boomers | 2.1% | - | 7.9% | - | .8% |
| Semirural Lifestyle | .5% | - | 1.9% | - | .2% |
| UPSCALE HOUSEHOLDS | | | | | |
| Urban Professional Couples | 2.8% | - | 10.4% | - | 3.7% |
| Baby Boomers with Children | .4% | - | - | .8% | .1% |
| Thriving Immigrants | 17.6% | - | - | 37.1% | 12.2% |
| Upscale Urban Asians | 3.6% | - | 13.5% | - | 2.9% |
| Older Settled Married Couples | 1.3% | - | 5.0% | - | .5% |
| UP & COMING SINGLES | | | | | |
| High Rise Renters | 12.6% | 48.7% | - | - | 26.2% |
| Enterprising Young Singles | 2.9% | - | 10.8% | - | 1.8% |
| RETIREMENT STYLES | | | | | |
| Retirement Communities | .8% | - | - | 1.8% | .9% |
| Active Senior Singles | 2.0% | - | 7.6% | .0% | 1.7% |
| Prosperous Older Couples | .7% | - | 2.7% | - | .5% |
| Wealthiest Seniors | .0% | - | .1% | .0% | .1% |
| Senior Sun Seekers | .2% | - | .0% | .4% | .1% |
| MOBILE ADULTS | | | | | |
| Twentysomethings | .6% | - | 2.2% | .0% | .4% |
| College Campuses | .3% | 1.1% | - | - | .7% |
| Military Proximity | 1.1% | - | - | 2.2% | .2% |
| CITY DWELLERS | | | | | |
| East Coast Immigrants | 7.9% | - | 29.9% | - | 4.2% |
| Middle Class Black Families | 1.6% | - | .0% | 3.3% | 1.0% |
| Newly Formed Households | .3% | - | - | .7% | .1% |
| Settled Southwestern Hispanics | 3.2% | - | .0% | 6.8% | .7% |
| West Coast Immigrants | 18.0% | - | .0% | 37.9% | 3.3% |

¹⁷ Data source: CACI Marketing Systems 1998 ACORN counts and Indexing.

¹⁸ Data source: Databases of 11 participating Los Angeles arts organizations 1996-1999.

Figure #2: ACORN Profile of Identified and Potential San Diego Audiences

| | Total (n=983,963)¹⁹ | Traditional Audience Index 138+ (n=193,009) | Best Potential Audience Index 101-137 (n=398,961) | Underinterested Audience Index <101 (n=391,993) | Actual Current Audience from Database (n=66,999)²⁰ |
|---------------------------------------|---|--|--|---|--|
| AFFLUENT FAMILIES | | | | | |
| Top One Percent | 1.4% | 7.0% | - | - | 5.7% |
| Wealthy Seaboard Suburbs | 5.8% | 29.5% | - | - | 14.5% |
| Upper Income Empty Nesters | 1.0% | 5.1% | - | - | 1.5% |
| Successful Suburbanites | 4.0% | 20.4% | - | - | 8.4% |
| Prosperous Baby Boomers | 8.1% | - | 20.0% | - | 10.4% |
| Semirural Lifestyle | 4.6% | - | 11.3% | - | 3.2% |
| UPSCALE HOUSEHOLDS | | | | | |
| Urban Professional Couples | 5.9% | - | 14.5% | - | 7.9% |
| Baby Boomers with Children | 4.6% | - | - | 11.6% | 2.5% |
| Thriving Immigrants | 6.4% | - | - | 16.0% | 2.8% |
| Upscale Urban Asians | 1.2% | - | 3.0% | - | .4% |
| Older Settled Married Couples | 2.3% | - | 5.7% | - | 1.7% |
| UP & COMING SINGLES | | | | | |
| High Rise Renters | 4.6% | 23.6% | - | - | 8.8% |
| Enterprising Young Singles | 6.6% | - | 16.4% | - | 6.7% |
| RETIREMENT STYLES | | | | | |
| Retirement Communities | 1.1% | - | - | 2.8% | 1.4% |
| Active Senior Singles | 4.6% | - | 11.4% | - | 5.6% |
| Prosperous Older Couples | 2.5% | - | 6.1% | - | 3.0% |
| Wealthiest Seniors | 2.1% | 10.5% | - | - | 2.8% |
| Senior Sun Seekers | 3.0% | - | - | 7.4% | 1.7% |
| MOBILE ADULTS | | | | | |
| Twentysomethings | 4.5% | - | 11.2% | - | 3.7% |
| College Campuses | .8% | 4.0% | - | - | 1.0% |
| Military Proximity | 10.3% | - | - | 25.8% | 2.1% |
| CITY DWELLERS | | | | | |
| East Coast Immigrants | .2% | - | .5% | - | .1% |
| Middle Class Black Families | .2% | - | - | .5% | .1% |
| Newly Formed Households | 1.8% | - | - | 4.5% | .7% |
| Settled Southwestern Hispanics | 4.1% | - | - | 10.2% | .8% |
| West Coast Immigrants | 6.0% | - | - | 15.1% | .7% |
| FACTORY & FARM COMMUNITIES | | | | | |
| Middle America | .3% | - | - | .7% | .1% |
| Young Frequent Movers | .7% | - | - | 1.7% | .2% |
| Small Town Working Families | .1% | - | - | .3% | .1% |
| DOWNTOWN RESIDENTS | | | | | |
| Social Security dependents | .7% | - | - | 1.8% | 1.0% |

¹⁹ Data source: CACI Marketing Systems 1998 ACORN counts and Indexing.

²⁰ Data source: Databases of 7 participating San Diego arts organizations 1996-1999.

Figure #3: ACORN Profile of Identified and Potential San Francisco Audiences

| | Total (n=1,528,599) ²¹ | Traditional Audience Index 145+ (n=549,400) | Best Potential Audience Index 101-144 (n=558,307) | Underinterested Audience Index <101 (n=420,892) | Actual Current Audience from Database (n=135,751)²² |
|--------------------------------|--|--|--|---|---|
| AFFLUENT FAMILIES | | | | | |
| Top One Percent | 3.3% | 9.2% | - | - | 8.3% |
| Wealthy Seaboard Suburbs | 12.5% | 34.7% | - | - | 18.0% |
| Upper Income Empty Nesters | .2% | .5% | - | - | .2% |
| Successful Suburbanites | 5.4% | 15.0% | - | - | 3.7% |
| Prosperous Baby Boomers | 2.6% | - | 7.1% | - | .9% |
| Semirural Lifestyle | 2.2% | - | 5.9% | - | .7% |
| UPSCALE HOUSEHOLDS | | | | | |
| Urban Professional Couples | 6.8% | - | 18.1% | - | 7.5% |
| Baby Boomers with Children | .5% | - | - | 2.0% | .0% |
| Thriving Immigrants | 11.6% | - | - | 42.0% | 4.9% |
| Upscale Urban Asians | 9.3% | - | 25.4% | - | 8.0% |
| Older Settled Married Couples | 2.0% | - | 5.5% | - | .5% |
| UP & COMING SINGLES | | | | | |
| High Rise Renters | 14.1% | 39.2% | - | - | 30.4% |
| Enterprising Young Singles | 3.9% | - | 10.7% | - | 1.6% |
| RETIREMENT STYLES | | | | | |
| Retirement Communities | 2.5% | - | - | 9.0% | 1.8% |
| Active Senior Singles | 2.6% | - | 7.1% | - | 1.5% |
| Prosperous Older Couples | 1.2% | - | 3.3% | - | .4% |
| Wealthiest Seniors | .0% | - | .1% | - | .1% |
| Senior Sun Seekers | .9% | - | - | 3.1% | .4% |
| MOBILE ADULTS | | | | | |
| Twentysomethings | 1.3% | - | 3.6% | - | 1.8% |
| College Campuses | .5% | 1.3% | - | - | 2.3% |
| Military Proximity | 1.8% | - | - | 6.4% | .4% |
| CITY DWELLERS | | | | | |
| East Coast Immigrants | 4.6% | - | 12.6% | .0% | 3.6% |
| Middle Class Black Families | .7% | - | - | 2.7% | .3% |
| Newly Formed Households | 1.5% | - | - | 5.3% | .3% |
| Settled Southwestern Hispanics | 1.7% | - | - | 6.2% | .2% |
| West Coast Immigrants | 1.2% | - | - | 4.4% | .1% |
| Low Income Young & Old | .3% | - | - | 1.0% | .1% |
| Social Security Dependents | .7% | - | - | 2.6% | .5% |
| Distressed Neighborhoods | .7% | - | - | 2.5% | .1% |
| Low Income Southern Blacks | .5% | - | - | 1.8% | .1% |
| Urban Working Families | 2.5% | - | - | 9.1% | .7% |

²¹ Data source: CACI Marketing Systems 1998 ACORN counts and Indexing.

²² Data source: Databases of 13 participating San Francisco arts organizations 1996-1999.

Figure #4: ACORN Profile of Identified and Potential San Jose Audiences

| | Total (n=566,509)²³ | Traditional Audience Index 151+ (n=175,201) | Best Potential Audience Index 101-150 (n=179,633) | Underinterested Audience Index <101 (n=211,675) | Actual Current Audience from Database (n=46,534)²⁴ |
|--------------------------------|---|--|--|---|--|
| AFFLUENT FAMILIES | | | | | |
| Top One Percent | 4.8% | 15.6% | - | - | 12.4% |
| Wealthy Seaboard Suburbs | 18.1% | 58.4% | - | - | 27.1% |
| Successful Suburbanites | 6.0% | - | 18.9% | - | 7.3% |
| Prosperous Baby Boomers | 1.4% | - | 4.4% | - | 1.0% |
| Semirural Lifestyle | 2.1% | - | 6.5% | - | 1.6% |
| UPSCALE HOUSEHOLDS | | | | | |
| Urban Professional Couples | 3.7% | - | 11.6% | - | .47% |
| Baby Boomers with Children | 1.1% | - | - | 2.9% | .5% |
| Thriving Immigrants | 23.2% | - | - | 62.2% | 15.1% |
| Upscale Urban Asians | 5.7% | - | 17.9% | .0% | 3.0% |
| Older Settled Married Couples | .3% | - | .8% | - | .3% |
| UP & COMING SINGLES | | | | | |
| High Rise Renters | 7.1% | 22.8% | - | - | 8.3% |
| Enterprising Young Singles | 10.0% | - | 31.6% | - | 6.6% |
| RETIREMENT STYLES | | | | | |
| Retirement Communities | 2.9% | - | - | 7.8% | 2.6% |
| Active Senior Singles | .8% | - | 2.5% | - | .6% |
| Prosperous Older Couples | .5% | - | 1.6% | - | .5% |
| Wealthiest Seniors | .2% | - | .7% | - | .6% |
| Senior Sun Seekers | 1.8% | - | - | 4.9% | .9% |
| MOBILE ADULTS | | | | | |
| Twentysomethings | .5% | - | 1.7% | - | .6% |
| College Campuses | 1.0% | 3.2% | - | - | .9% |
| Military Proximity | .8% | - | - | 2.2% | .3% |
| CITY DWELLERS | | | | | |
| East Coast Immigrants | .5% | - | 1.6% | - | .5% |
| Settled Southwestern Hispanics | 1.0% | - | - | 2.7% | .5% |
| West Coast Immigrants | 5.7% | - | - | 15.3% | 2.6% |
| Social Security Dependents | .1% | - | - | .3% | .6% |

WINNING THE BEST POTENTIAL AUDIENCE

The above charts demonstrate there is an untapped audience whose above-average “purchase potential” indexes suggest its members could become active performing arts goers. Within the four cities, there are 1.95 million of these households. There are 110,492 of these households found on the combined study databases from the representative 36 performing arts organizations — just over 5 percent of these households. While many more of the Best Potential Audience may well show up as ticket purchasers not captured on databases of the sample organizations and may

²³ Data source: CACI Marketing Systems 1998 ACORN counts and Indexing.

²⁴ Data source: Databases of 6 participating San Jose arts organizations 1996-1999.

attend other performing arts organizations, the low percentage now being captured suggests much work ahead by performing arts organizations.

How hard will the task be? Despite the disconnect reported earlier between the highest marketing budgets and lower percentages of filled paid admissions, the larger set of findings correlating marketing investment and return on investment partially answers the question. Data collected from a representative sample of 267 performing arts organizations in the four cities shows that, on average, these organizations commit only 14 percent of their budgets to marketing. Data from the same set of organizations shows that those organizations that had grown the most from 1992 to 1998 (more than 80 percent budget growth) increased the percentage of their budget allocated to marketing from 11.59 percent in 1992 to an average of 28.8 percent in 1999. Thus, an increased allocation to marketing suggests greater ability to reach and win a larger audience, in turn affecting overall revenues.

When we study how these Best Potential Audience clusters compare through purchase potential indexing to the same clusters in other cities, we find that in quite a few cases, their affiliation or potential to purchase admissions to the performing arts is stronger in the four cities than it is in markets such as Chicago, Miami or Houston. Simply put, if the California indexes are higher than elsewhere and the actual reach into these clusters is still so low, the indexes elsewhere suggest the arts in the comparison cities are facing even greater difficulties. The performing arts everywhere, it appears, have a market opportunity with these clusters that is not being realized.

Figure #5: Comparison of Best Potential Audience Clusters, California to Other Cities

| | Los Angeles | San Diego | San Francisco | San Jose | Chicago | Detroit | Houston | Miami | Portland |
|-------------------------------|-------------|------------|---------------|------------|---------|---------|---------|-------|----------|
| Upper Income Empty Nesters | 144 | 128 | 144 | 153 | 133 | 135 | 127 | 133 | 135 |
| Successful Suburbanites | 139 | 135 | 143 | 134 | 136 | 136 | 130 | 117 | 126 |
| Prosperous Baby Boomers | 120 | 117 | 123 | 119 | 121 | 122 | 118 | 115 | 117 |
| Semirural Lifestyle | 116 | 114 | 122 | 125 | 119 | 116 | 115 | 103 | 109 |
| Urban Professional Couples | 131 | 127 | 129 | 132 | 125 | 122 | 125 | 128 | 120 |
| Upscale Urban Asians | 105 | 100 | 112 | 104 | 109 | 129 | 99 | - | - |
| Older Settled Married Couples | 111 | 111 | 113 | 122 | 112 | 110 | 105 | 103 | 104 |
| Enterprising Young Singles | 118 | 122 | 117 | 119 | 121 | 115 | 118 | 117 | 118 |
| Active Senior Singles | 119 | 118 | 117 | 132 | 111 | 109 | 113 | 112 | 109 |
| Prosperous Older Couples | 117 | 120 | 114 | 129 | 114 | 115 | 110 | 103 | 108 |
| Wealthiest Seniors | 145 | 129 | 130 | 136 | 138 | 119 | 114 | 117 | 125 |
| Twentysomethings | 111 | 123 | | 122 | 130 | 108 | 121 | 98 | 121 |
| East Coast Immigrants | 107 | 103 | 103 | 115 | 110 | - | 114 | 102 | - |

CONCLUSIONS ON AUDIENCE GROWTH POTENTIAL

The research on the untapped market suggests there is great opportunity ahead. California performing arts organizations have the potential of reaching and gaining an interested, larger market — a market that is probably now getting arts and cultural entertainment from other media and possibly other venues, even other locations, such as through travel-related participation. The challenge is: how?

IV. FACTORS AFFECTING FUTURE AUDIENCE GROWTH: POSSIBLE NEXT STEPS TO ADDRESS

If there is a potential market, and there are plenty of available seats, what factors besides a larger average monetary investment in marketing should be addressed to realize audience growth? The answer comes back to the definition of marketing stated early in this report and to the fact that what we learned through the case study investigation, and through scores of additional interviews with executive directors and marketing directors, showed that marketing — holistic, integrated, organizationwide marketing — is rarely understood or implemented by the performing arts organizations in these four cities. While most performing arts organizations studied have done a great deal in addressing broad *audience development* strategies, they have been slow to adapt to marketing.

- ✓ There is little marketing research being done that yields results on which organizations can base decisions. Actionable research results should help organizations to position, reposition, define niches and influence all those organizational aspects necessary to create and maintain a brand consistent with the desired market position.
- ✓ Marketing is still largely viewed as sales and advertising, not as a cross-cutting philosophy and an organizationwide culture with integration of marketing into all aspects of decision-making supported by integrated or team-based staffing and technical systems.
- ✓ With more and more venues and continued expansion of performing arts series, organizations need to better define their unique brand identities and find a unique niche. For some, this means finding a niche distinct from for-profit entertainment that is direct competition in programming and audience retention.
- ✓ Those organizations that are able and willing to evaluate their programming from the cold lens of desired market position have won larger audiences in return. But they are among the minority and have found the process hard to learn. In every case, however, they believe it has strengthened their artistic product, not weakened it, as feared.
- ✓ Performing arts organizations are just beginning to grasp and respond to the concepts of relationship marketing with its implicit emphasis on customer service. Too many still trumpet such policies as “no refunds, no exchanges” that communicate messages of “customer beware,” as was heard through this study’s focus groups.
- ✓ A few organizations are beginning to understand the implications of the “experience” economy: consumer desires for a totally enjoyable experience, not just for a good concert, again as heard from arts attendees throughout the focus groups.

Many more need to understand what they can do as organizations to create that warm experience from the consumer's first encounter. And, as they do so, they need to learn how to translate that warmth to an increasingly diverse audience.

- ✓ Implicit organizational changes are tied to successful marketing. Creating an integrated team approach that links marketing, box office, development, programming, education and customer service is one change, huge in itself. Creating the parallel philosophical changes in governance decision-making concerning organizational priorities is another huge change. And supporting all this with the systems and technology to build and maintain relationships with audiences whose participation habits are far more challenging than in the past is another change.
- ✓ Communications mechanisms need to change. Those few institutions that have grabbed hold of effective Web use to build databases and deliver segmented and targeted newsletter information have already seen dramatic responses. E-commerce has added millions of new revenue to their box office.
- ✓ Finally, investments in marketing need to grow closer to the 20 percent of operational budgets evidenced by the strata of study organizations that exhibited the most significant and consistent growth over the past decade. Obviously, given the variations of cost between markets, it is most imperative for organizations in Los Angeles and San Francisco to bring their marketing budgets up. But every performing arts organization, in all four cities, should evaluate the true investment needed, based on all the above elements of successful marketing.

The list is long. Shortcuts through quick ad campaigns won't do it. Nor will investing just in "the marketing department." Much of what is listed above involves organizational adaptation and learning, organizational skill development and organizational systems expansion. The areas of investment can almost be viewed as a series of capitalization needs. Not every organization needs to make investments in each area. But every organization should go through an analysis process, evaluating and prioritizing what needs to be addressed to be on par with successful, holistic marketing.

Figure #6: Transforming Organizations to Gain Marketing Capacity: Investment Needs

| | |
|--|---|
| Product: | Investment in consistent excellence, clear niche, unique attributes. Marketplace responsiveness. |
| Distribution: | Creation of multiple points-of-entry and easy access for the public. |
| Human Resources: | Movement toward a comprehensive in-house team, with an administrative cultural orientation/sensibility to marketing and market development at all levels. |
| | Skilled, trained marketing professionals, and retraining for existing staff. |
| Research: | Multiple relevant methods to provide the foundation for strategic repositioning. |
| | Periodic, large-scale analysis augmented with routine, ongoing data collection and sophisticated data mining, providing benchmarks to measure progress towards goals and change. |
| Creative: | Creation and perpetration of brand identity, differentiating the product from all others in the marketplace, creating consistent and vivid imagery. |
| Systems: | Highly effective data systems working in real time to maintain and update customer files, linking box office, transaction analysis, e-systems, development, membership and prospecting. |
| Structure: | Agile, flexible and able to respond to the public, utilizing the 1:1 relationship to constantly inform and adjust the organization's services. |
| Communications and Advertising: | Internal communications, to utilize all the above as a learning organization, at all levels within the organization. |
| | Of size and scope to establish and maintain the brand in the marketplace, consistently reaching the public where they are, not assuming the public will search in traditional places. |
| Education and Outreach: | Reach and depth equal to the artistic work. |
| Reserves: | Financial stability to support growth and change. |

ADVICE FOR PRACTITIONER ORGANIZATIONS

The natural response to the above listing of typical marketing voids and investment needs is to believe money alone can initiate the change process. But many of the case study organizations we examined proved that the change process toward marketing success begins with organizational philosophical and structural realignment. Here, it is helpful to think of the second definition of marketing noted at the start of this report, the so-called “5-Cs:” cross-cultural, cross-functional, cross-disciplinary, customercentric and competitor-focused. It is a holistic approach. Gaining skill in these requires staff and board dialogue, planning and shifting away from old ways of operating. It requires some research — both formal and informal — and a process for applying the research findings to the repositioning and branding of the organization. Even the smallest organization, with the most limited budget, can move through this process and see profound results, as demonstrated by some of the smaller case study organizations.

Even for small organizations, the emphasis in using marketing resources, grants or counsel should first be on the above process of organizational philosophical and structural realignment. With this likely comes some level of research and analysis to understand and target the desired market segment and to learn how to best win and retain this target market. Next come the dual investments in systems — to manage relationship marketing and product — to win the desired target market. One without the other isn't enough. Then, at the end rather than at the beginning, comes investment

in building the image in the market, expanding visibility through advertising and Internet presence.

ADVICE FOR GRANTMAKERS

The findings from this evaluation showed that marketing support given by grantmakers to performing arts organizations in California has been of value. An analysis of 139 grants given for audience development, conducted as a part of this study, showed that organizations that used their funds for systemic change to build marketing capacity — as opposed to short-term advertising, outreach or a specific visibility-building event(s) — were the most successful in accomplishing their overall audience-development goals and also appeared to gain financial stability over time. Thus, funders should consider targeting marketing grants to efforts for long-term systemic change and capacity development.

Anecdotal evidence through interviews with grantees showed that even large-scale investments made by grantmakers in advertising and visibility campaigns didn't have a lasting impact. And investments in outreach or other community efforts related to audience development, while valuable when done as a component of a larger, more integrated marketing effort, didn't in themselves position the organizations for success. However, grants given to vastly strengthen systems capacity have had a powerful impact. The investment in sophisticated Web commerce and Web communications linked directly to databases and internal capacity to use that data for real-time communications has begun to revolutionize the way some institutions are building audiences. The cautionary side of this, however, is that the initial financial investment is significant, and the training and organizational adaptation required is equally significant.

Overall, the organizations studied for this report seek assistance and counsel as they learn how to change to become marketing savvy. Many know they and their boards need leadership and assistance through internal cultural change and through new ways of defining success. Many recognize the need for training and retraining staff, not just in marketing, but also throughout the organizational departments that come into contact with the current and potential customer. Some need assistance in breaking out of old financial models, getting out from the subscription tyranny of living off of next year's subscription revenues this year. In such cases, the need may include operating cash reserves of the depth to make this possible. Funders can provide much-needed leadership, support and direction throughout the entire process of building marketing savvy and the internal structures to act upon it.

For many, embarrassment over audience statistics, subscription attrition and lack of internal marketing capacity is so significant that they are afraid to let funders know the

extent of the need. Others, however, are adamant that time is of the essence in putting marketing on the table for considerable joint discussion and shared learning. In this, too, funders can play a critical leadership role through convening forums and leadership dialogue.

SETTING BENCHMARKS FOR PROGRESS

This evaluation provides numerous baselines to use in the future to measure the impact of new initiatives and mechanisms to strengthen marketing capacity. These include:

- ✓ Geodemographic changes in the nature of the audience;
- ✓ Percentages of seats sold to seats available;
- ✓ Average marketing investment as percentage of operating budget; and
- ✓ Evidence of changed operating practices, including systems and marketing implementation.

Funder investment targeting any of the above needs can be evaluated using some or all of these benchmarks. In addition, grantees should set their own benchmarks as a part of their marketing planning and reorientation toward marketing success. Those individual benchmarks, and the analytical process required to develop them, may be the most helpful of all, as they will shape and direct lasting systemic change for marketing capacity.