THE SAINT PAUL
CHAMBER
ORCHESTRA

Ticket Pricing at the SPCO: At the Intersection of Mission and Business Model

One of the most important challenges we at The Saint Paul Chamber Orchestra face, and indeed that all orchestras face, is audience development. Developing audience is critical not only to our business model but, more importantly, for delivering on our mission to the community. This mission component is essential to remember because it means that our marketing is different from marketing a commercial product; while we are providing a product sought after by a segment of the community, we must also introduce our art form to another, larger segment of the community in the hopes that they will enjoy it. There is an evangelical thread to our audience development efforts that grows from the mission-based nature of our organization.

The foundation of our philanthropic program is our audience; not only is the audience our primary source of philanthropy, but the health of our audience is a critical driver of other philanthropy, including major gifts from corporations and foundations. We believe that the key to creating a sustainable business model is developing a large committed audience, and positioning the organization as a cause to support versus a commercial product.

Over the last seven years, we at the SPCO have been aggressive and slightly radical in addressing the challenge of building audience, particularly around ticket pricing.

This was not always the case. If you were to look back at how we operated ten years ago, you would find a fairly typical approach to ticket pricing. In 2008, a study by Robert J. Flanagan of Stanford's Graduate School of Business was published regarding economic issues facing the orchestra industry. In this study, commissioned by the Mellon Foundation, Flanagan analyzed audience data from the 50 largest orchestras from 1987 through 2004. Flanagan concluded that, "higher ticket prices are associated with lower attendance and conversely. However, the relationship between ticket prices and attendance is inelastic so that the loss in revenues from diminished attendance does not completely offset the gain in revenues from charging a higher price to people who do attend . . . for regular concerts, for example, a 10 percent increase in the average ticket price is associated with a five percent decline in attendance." In facing this choice over the years, we had opted for higher prices (which translated to more ticket revenue) and a smaller audience. We imposed annual price increases, sometimes more steep increases at the high end where the market was not as sensitive to price, while discounting or offering a select number of seats at the low end to attract new subscribers. While we knew that low prices were important to attracting new audiences, we tried to "have our cake and eat it too"; we could generate more revenue from a shrinking cohort of loyal subscribers while doing surreptitious discounting to attract new concertgoers. In many ways, ticket prices were a source of institutional pride; there was a sense that high ticket prices appropriately reflected the quality and excellence of the orchestra, and thus, there had been several intentional efforts over the years to increase prices.

Over the past ten years, much has changed in our thinking and our behavior. This is the story of how the SPCO moved from a traditional approach to pricing to lowering ticket prices across all of our venues. We'll cover why and how we made this shift, what the results have been, and what we see as the next logical steps.

From Basically Baroque to the Neighborhood Series

In 2002, we presented two major concert series in the Twin Cities – our Masterworks Series at the Ordway Center for the Performing Arts, our flagship venue in downtown St. Paul, and our Basically Baroque Series at four different neighborhood venues across the Twin Cities. While the Masterworks Series seemed to have stabilized after many years of audience decline, the Basically Baroque Series was troubled. In 2001-02 the series was 54 percent sold, and only 43 percent sold on subscription. For the 2002-03 season we made the decision to discontinue the series at the venue with the worst attendance. Clearly more needed to be done, however. We considered eliminating Basically Baroque altogether and moving all of our concerts to the Ordway. Yet, a number of societal factors suggested that bringing performances out to the neighborhoods where people lived was a promising strategy. We just needed to get it right.

Through research, we had discovered that one of the barriers to attendance was the perception that classical music was for the elite or was "stuffy." In order to counteract this perception, we decided to change the series name from "Basically Baroque" to "Neighborhood" in the 2004-05 season, and we expanded the programming to be inclusive of the full repertoire performed by the SPCO – from the Baroque period to the present day. Not only was the Baroque structure limiting from a programming perspective, but we felt the Baroque name communicated a sense of elitism and suggested a certain level of knowledge was required in order to enjoy the concerts. While we knew a new name would help with positioning, we also knew that name alone would not solve our audience problems.

The Pricing Task Force

Over the years, we had observed a direct correlation between low ticket prices and demand for tickets. We had numerous examples of how offering discounted tickets had stimulated demand. And 77 percent of the new subscribers we were attracting were buying at the lowest price points. We knew there was real power in low prices and that we ought to look more closely at the issue of price.

A Pricing Task Force was formed, made up of members of the Finance and Marketing Committees of the Board. The Task Force was charged with asking the following questions: Would lowering the pricing structure produce larger audiences? If so, would a larger patron base result in more earned and contributed revenue? If so, over what time period? Would our transactional costs be lowered substantially as a result of being more highly subscribed? If so, over what time period?

The Task Force was not initially asked to look at pricing specifically for the Neighborhood Series, but rather, to explore the issue of pricing overall. However, early on in the work of the group, it became clear that the Neighborhood Series was the obvious place to make any initial pricing changes, as it had not only experienced the most significant audience decline but also represented less financial risk than the Masterworks Series at the Ordway.

The Task Force developed some hypotheses: that reducing prices would significantly increase attendance, both through higher renewal rates and higher levels of acquisition; that over time, a significantly larger audience would lead to greater levels of philanthropic support through a stronger case and more contributors; and that reducing prices would lead to lower transactional costs because concerts would be more highly subscribed, and thus, require less marketing.

The Pricing Task Force posited that building a larger audience was essential for financial sustainability, that new acquisition was essential for building a larger audience, that the Neighborhood Series was a potential magnet for acquisition (if positioned properly), and that price was essential for repositioning.

The Task Force looked at a variety of financial scenarios, one of which was to examine how the SPCO's financial situation would change if we were to sell every ticket in our inventory at full price. It became apparent that we could not sell our way to prosperity – that concerts were loss leaders. At the time, ticket revenue covered less than 25 percent of our total expenses, and if we sold all remaining ticket inventory at full price it would produce only about $270,000 of additional net income (after marketing expenses.)

Yet it was clear that attendance was essential. At that point, $2 million per year was contributed by ticket buyers – 90 percent coming from subscribers and 65 percent coming from subscribers who had been with us for five or more years. Furthermore, we knew our case for institutional support was dependent on attendance.

The Task Force considered two major re-pricing options. The first was to rescale the hall, moving more seats to lower price points. The second was to re-price altogether, from four price points ($11, $23, $34, and $47) – essentially the same as our pricing structure at the Ordway, without the very top price scale of $59 – to two price points at $10 and $25, with 60 percent of the seats at $10 and 40 percent at $25.

Rescaling posed much less financial risk. However, it didn't move the repositioning of the Neighborhood series forward. We'd also done some rescaling in the past and watched current subscribers migrate to the newly low-priced seats – leaving very few for new acquisition. We also worried that a weak message might not translate into new sales. We certainly knew it didn't strengthen our philanthropic case. In essence, we felt the option of rescaling was low risk, low reward.

Repricing posed a greater financial risk. Repricing also strongly supported our repositioning efforts, was a clear message likely to stimulate new sales, and held the potential for philanthropic reward. In addition, we thought we could ask subscribers to donate the difference between their old and new price and perhaps recoup some of the lost revenue immediately. In summary: high risk, high reward.

The risk of doing nothing seemed to be perhaps the riskiest proposition. If we opted for the status quo, we would likely see the current trends continue and perhaps worsen: no progress on acquisition, a stagnating or declining audience, growth in fixed costs, increased demand for philanthropic support, a stagnating or declining pool of individual giving prospects, and the weakening of our philanthropic case.

While repricing was clearly the right approach to the Pricing Task Force, it was not as evident to the rest of the Board. There were heated discussions at the Marketing Committee; the Committee could not come to consensus on the proposal and thus, recommended it go before the Finance Committee and then the full Board of Directors for approval. When the proposal went before the Finance Committee, there was not universal support. Yet, in the interests of time (to preserve the ability to launch the 2005-06 season), the proposal was sent to the Board – without the endorsement of either the Marketing or the Finance Committees.

The Board first considered the issue in a regularly scheduled meeting in November of 2004. The discussion was extremely lively, and because there was still no consensus, it was decided that a special meeting should be called two weeks later. An incredible turnout of 35 Board members attended the meeting on the Monday night after Thanksgiving, and the discussion was just as passionate.

There was concern that lower prices might de-value the product. Supporters noted that the audience for the series was already stagnating, and that empty halls were what *really* devalued the product. There was concern about the magnitude of the risk. The counterargument was that the series was already imperiled by the declining audience, and that it wouldn't take many years for the declining revenue to reach the repricing projection level. The question was raised as to whether $10 ticket buyers would become donors. It was countered that the same percentage of our lowest price scale subscribers were currently contributing as in the highest price scales. Furthermore, it was known that patrons typically attended concerts for a number of years before contributing, and it was thus expected that we would not see the impact of contributions from new subscribers immediately but over time. Additionally, it was argued that even if none of the new audience members gave, our case for support was tied to the total number of people we served, and we would be better off with full halls. There was fear that we had no "exit strategy;" if we reduced prices in all Neighborhood venues, we couldn't raise them appreciably for several years. There was fear that there was no industry experience – that no one else has tried it.

There was also some concern that this decision was being made before the Business Model Task Force had done its work – a group that had recently been formed to identify the optimum business and financial structure for the SPCO. There were very influential Board members who had not bought into the proposal to lower prices, which rendered the issue fraught with political risk as well as financial risk.

A number of Board members warned of the danger of pursuing half measures, and posited that the status quo was not acceptable. Several members commented on the potentially significant public attention this change in pricing could stimulate.

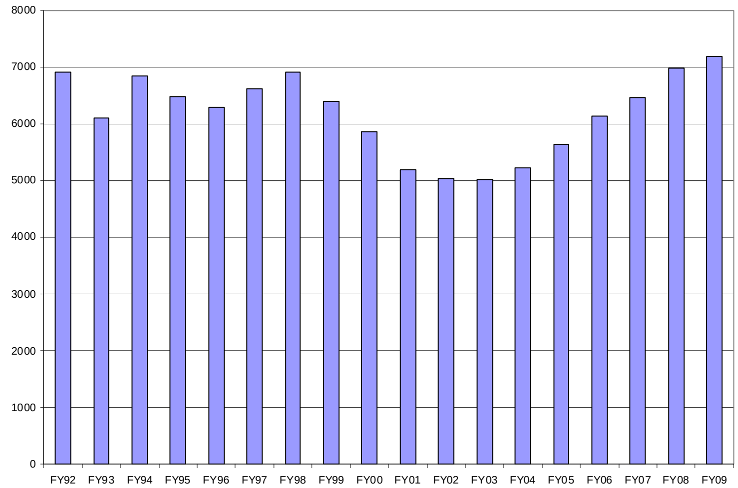
After much heated and passionate discussion, it was time for a vote. The motion to approve the pricing proposal was passed unanimously on a voice vote of those present.

The Results of Lowering Prices in the Neighborhoods

So how did it go? Since lowering prices in the Neighborhoods in 2005, the number of subscriber households in our original Neighborhood venues has increased by 50 percent. Because the repricing was so successful, we added four more Neighborhood venues. We now perform the same number of concerts in the Neighborhoods as we do at the Ordway. As a result of both the repricing and the expansion of venues, the overall Neighborhood subscriber base has grown by 145 percent, or more than 1500 households, and we're now 89 percent sold in the Neighborhoods. Across all venues, we've seen a

40 percent increase in subscriber households. We now have about 550 households subscribing to multiple series, up from about 330 before we lowered prices. Our annual fund has grown by more than $600,000 over this time, primarily due to an increase in individual giving in excess of $575,000. We also have 44% more subscribers who contribute. Our brand has gone from resting exclusively on artistic excellence to resting on artistic excellence *and accessibility*.

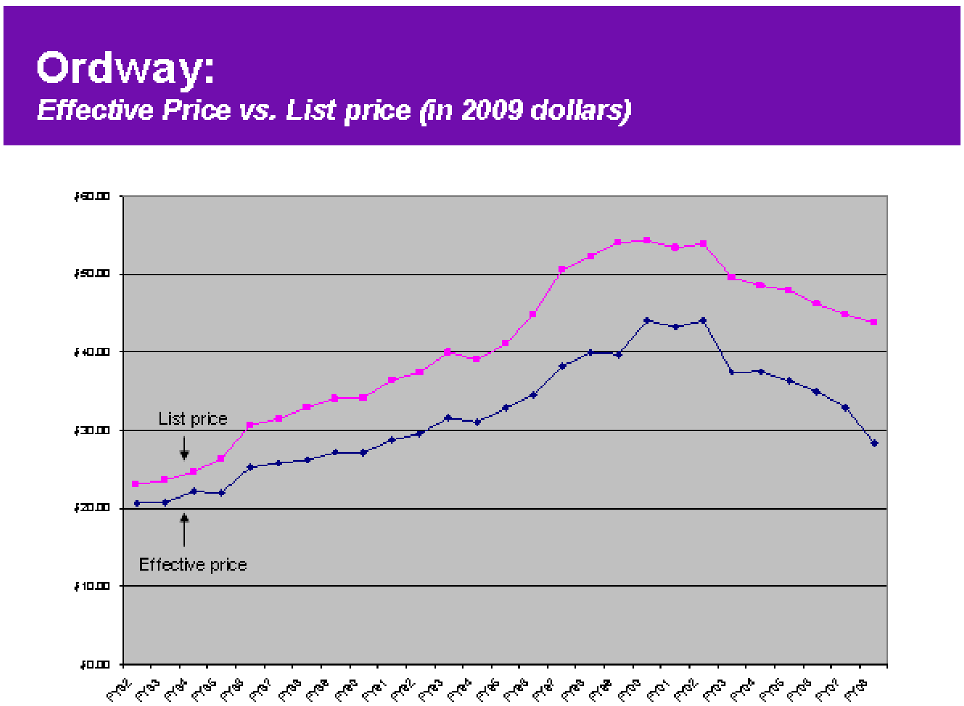
Subscriber Households



While we believed the audience would grow and we would have a larger base for support, we underestimated the power of this change for our case for support. As anyone in the fundraising business knows, the fundraising environment is ever more competitive. Making big changes to better serve the community has helped us save gifts that were vulnerable, and obtain new gifts and increases that wouldn't have otherwise been possible.

While we experienced success in the Neighborhoods, the Ordway was more of a challenge. We didn't see massive migration of Ordway subscribers to the Neighborhoods, which was a real risk with the repricing, but we did see a slow degradation of the Ordway subscriber base taking place – similar to that which we were hearing about at other orchestras. Unwilling to allow the Ordway subscriber base to decline, we opted to more aggressively discount subscriptions to attract new subscribers, ensuring we kept the offers hidden from our current subscribers. We experimented with offers as strong as 50 percent off or $15 best available seats. What we found was that these offers were successful in attracting new subscribers. However, we also learned that in order to renew these subscribers, we needed to continue to offer them low prices. And so, over the years, the effective price of our tickets at the Ordway declined.

After we repriced the Neighborhoods, we were also much more reticent to engage in the practice of annual price increases at the Ordway, and so, the combination of holding prices and engaging in significant, long-term discounting, meant that our effective price —what people were really paying— was declining every year. Since FY03 the average effective price had declined from $34 to $24 per ticket (in today's dollars.) Again, this decline was intentional. It was not happening to us, but rather, it was a conscious choice we were making to ensure that the Ordway audience did not decline.



Because we were lowering prices in a "behind the scenes" manner, we were not reaping all of the benefits of systematically and publicly lowering prices. By necessity, our discounting strategy was carefully focused in order to avoid collateral damage, and thus was not helpful in terms of positioning (i.e. being a cause worthy of support); nor was it as effective in terms of audience development because we could not promote it aggressively though all of our communication vehicles. We also believed that constant discounting damaged our brand and put us at risk of straining relationships with our most devoted audience members who were paying full price.

From a revenue perspective, the lowering of prices in the Neighborhoods combined with this aggressive discounting at the Ordway produced a 10 percent decrease in gross revenue. However, we had offset the decline in gross revenue by significantly reducing our marketing expenses, so that our net revenue actually increased by more than $350,000 between 2004-05 and 2008-09. Some of the expense cuts we made were possible because we were more heavily subscribed in the Neighborhoods, and thus, less reliant on expensive single ticket marketing. But many of the cuts were simply "cutting the fat" out of the marketing budget – eliminating investments that simply were not generating sufficient returns. In essence, we had been able to afford to lower our prices by rationalizing our marketing expenses. Another way to look at it is that our reduced gross revenue combined with fuller halls allowed us to avoid diseconomic decisions when it came to marketing expenses.

The Next Frontier: Lowering Prices at the Ordway

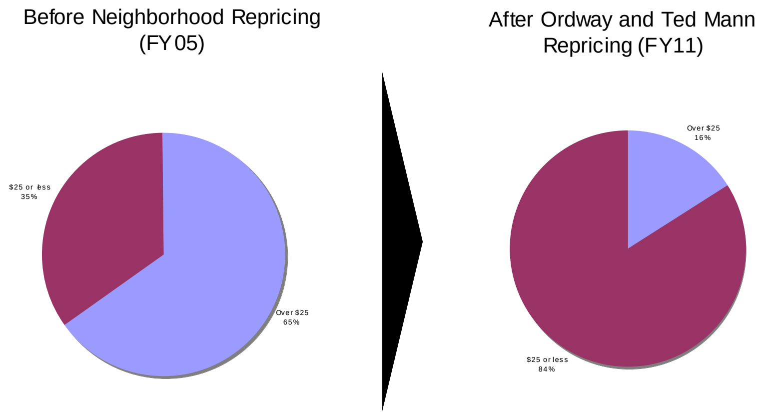
In the fall of 2008, we began to discuss with the Marketing Committee whether we should structurally lower prices at the Ordway and Ted Mann Concert Hall (where we had a Sunday matinee series) – the next logical step in our quest for broader accessibility. In the spring of 2009, the Marketing Committee put forward a fully-endorsed proposal to the Board to create a consistent, three-tiered pricing structure for all Ordway and Ted Mann concerts, with approximately 25 percent of the seats available at $40, 25 percent available at $25 and 50 percent available at $10.

By 2008-09, much had changed in terms of the organization's perception of ticket pricing. Obviously, our success in the Neighborhoods was the driver, but price had become a major issue in the cultural world as well, with many organizations like the Baltimore Symphony and Metropolitan Opera starting to experiment with lowering prices. By the time we raised the issue of price again in 2008, the issue was simply not controversial.

We believed lowering prices at the Ordway and Ted Mann would produce a significant increase in audience and be an important step forward in positioning the SPCO as a cause, not a commercial product. With this change in pricing, 84 percent of our overall ticket inventory across all venues would be available at $25 or less; 56 percent would be available at $10 or less. While this would be a long term strategy, we believed the initiative could be undertaken without compromising net revenue; in other words, we felt it was likely that this initiative would be budget neutral or even positive in year one when accounting for additional marketing expense savings and contributions in support of the effort.

Above all, we felt that making it possible for more people to experience our music was simply the right thing to do as an institution supported by the community. Ultimately, the Board demonstrated its commitment to this vision by unanimously approving the proposal to lower prices at the Ordway and Ted Mann beginning with the 2010-11 season. Stay tuned for the results.

After Repricing: Overall SPCO Ticket Inventory



The Future

Now that we've lowered prices at all of our venues so that you can attend any SPCO concert, any time, anywhere across the Twin Cities for $10, $25 or $40, what's next? In terms of maximizing our business model, we need to continue to focus on building a culture of giving in the audience – on educating the audience on our need for gifts, on asking in the right places at the right time. We need to continue to refine how we communicate our case for support – how we tell our story of serving more of the community with the highest quality music.

The most important area of focus, however, will be how we continue to serve more and more of our community. What further barriers to experiencing our music can we address? How can we become more broadly accessible? Whether it will be through the use of digital media, bringing concerts to underserved communities, or re-imagining the concert experience, continuing to do big things to better serve the community will be critical to our future as an institution.

Application to the Industry

We are often asked whether we think our pricing model would work for other orchestras. While we don't purport to know the specific answers for other organizations, we firmly believe that all orchestras must be relevant to their communities. If there is no audience for what we do – or if the audience is declining – we won't receive the support we're receiving now in the future. Recent data from the NEA suggests that we should all be concerned about audience trends in classical music and our relevancy to our communities.

We’ve charted a course of accessibility and serving more people, and we’ve seen ticket price as a critical component of that work. Ticket pricing may not be part of the approach for other orchestras, but we do believe that all orchestras should be grappling with these questions:

- What is our business model? In other words, how do we fund the fulfillment of our mission?
- What do the trends suggest about how we’ll be able to fund the fulfillment of our mission in the future?
- Assuming philanthropy is a component of the business model, what is our case for support? What are we doing to merit the community’s current level of support for our organization? Is it enough to merit greater levels of support in the future? If not, what could we do to increase or improve our service and relevance to our community?

We believe that the answers to these questions are at the heart of how orchestras will survive and thrive into the future.