Economics of Collaboration

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Different kinds

- Cooperation: non-committal
- Coordination: alignment
- Collaboration: sharing resources
- Integration: merging
- In this presentation we focus on collaboration and integration, both terms will be used
Why collaboration?

- As a result of the international financial crisis many countries cut down their expenses on performing arts
- Urge to cut down costs, to increase income and to find economies of scale
- Especially in countries with substantial government support, art organizations work solely
- Art organizations are looking for new organizational structures
## Income of theaters/concert halls

<table>
<thead>
<tr>
<th></th>
<th>24 developed countries with statistics</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>box office</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>donations</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>subsidy</td>
<td>40%</td>
<td>5%</td>
</tr>
<tr>
<td>miscellaneous</td>
<td>0%</td>
<td>5%</td>
</tr>
</tbody>
</table>
Internal Economies of Scale
Cross section research among 150 theaters and concert halls

<table>
<thead>
<tr>
<th>economies of scale</th>
<th>visitors</th>
<th>performances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>down</td>
<td>up</td>
</tr>
<tr>
<td>Capital</td>
<td>down</td>
<td>down</td>
</tr>
<tr>
<td>Housing</td>
<td>down</td>
<td>up</td>
</tr>
<tr>
<td>Program</td>
<td>down</td>
<td>up</td>
</tr>
<tr>
<td>Subsidy</td>
<td>down</td>
<td>up</td>
</tr>
</tbody>
</table>
# One or more halls in one venue

- More halls: average costs per visitor go up
- The average costs per hall remain stable
- Total costs of 2 halls are double as of one hall
- No economies of scale

<table>
<thead>
<tr>
<th>Number of halls</th>
<th>Subsidy per hall x € 1,000</th>
<th>N</th>
<th>Standard deviation x € 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1,528</td>
<td>34</td>
<td>1.178</td>
</tr>
<tr>
<td>2</td>
<td>1,514</td>
<td>39</td>
<td>1.089</td>
</tr>
<tr>
<td>3</td>
<td>2,071</td>
<td>6</td>
<td>1.74</td>
</tr>
<tr>
<td>4</td>
<td>1,449</td>
<td>3</td>
<td>0.44</td>
</tr>
</tbody>
</table>
Long running productions lead to higher and not to lower average costs per show.

Economies of scale of technical support and marketing are compensated by the costs of the larger size of productions.

We should be aware that the research was a cross section and not a longitudinal research.

No economies of scale.
Conclusions

- More visitors: economies of scale
- More performances: diseconomies of scale (unexpected)
- More halls in the venue: diseconomies of scale (unexpected)
- More venues under one management: economies of scale
Continuation

- Related to the number of performances theaters who present 220 to 400 performances appear to have the lowest average costs.
- The relatively cheapest theater has one hall, low capital costs, many seats, few performances and a large audience.
External Economies of Scale
<table>
<thead>
<tr>
<th>Production chain</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation/intellectual property</td>
<td>Writers, composers, choreographers</td>
</tr>
<tr>
<td>Production</td>
<td>Companies, commercial producers, orchestras, popbands</td>
</tr>
<tr>
<td>Distribution/sales</td>
<td>Promotors, agents, media companies</td>
</tr>
<tr>
<td>Presentation</td>
<td>Theaters, concert halls, pophalls, festivals,</td>
</tr>
<tr>
<td>Reception/consumption</td>
<td>Audience</td>
</tr>
</tbody>
</table>
Vertically integrated companies in a supply chain are united through a common owner.

For collaboration it’s not necessary to have a common owner.

Usually each member of the supply chain produces a different product or (market-specific) service, and the products combine to satisfy a general need.
Internal gains/losses

- **Internal gains:**
  - Lower transaction costs
  - Synchronization of supply and demand along the chain of products
  - Lower uncertainty and higher investment
  - Ability to monopolize market throughout the chain by market foreclosure

- **Internal losses:**
  - Higher monetary and organizational costs of switching to other suppliers/buyers
Society

- **Benefits to society:**
  - Better opportunities for investment growth through reduced uncertainty

- **Losses to society:**
  - Monopolization of markets
  - Rigid organizational structure
Horizontal integration occurs when a firm is being taken over by, or merged with, another firm which is in the same industry and in the same stage of production as the merged firm.

This process is also known as a "buy out" or "take-over".

Horizontal integration in marketing is much more common than vertical integration is in production.

For collaboration it’s not necessary to have a common owner.
Market developments within the performing arts

- **Commercial producers**
  - Costs reduction
  - Market share
  - Capital injections
  - Quality/innovation

- **How?**
  - Autonomous growth
  - Vertical integration
    - Producers who own venues
  - Horizontal integration
    - Joined sales agents

- **Market dominance increases**
  - Centralization admission fees, ticket sales, marketing
Fine arts companies

- **horizontal integration/collaboration**
  - Merge when artistic leaders move to another company
  - Demand government (orchestras)
  - No joined marketing efforts
  - No joined overhead (rehearsal space, accounting, funding,
- **vertical integration**
  - Fine arts companies with their own venue
  - coproduction
Coproduction vertical

- Company – theater
  - Makes more risky performances possible
  - More solid financial base by sharing costs
  - In favor of Image
  - First right of presenting the performance
  - But also: when the performance is not good, the theater is committed to present it
Coproduction horizontal

- Company – company
  - Stimulates actors, directors
  - More different productions (sharing costs)
  - But also: difficult planning
In The Netherlands collaboration starts slowly
Mainly non-committal cooperation
Theaters are depending on commercials producers
Producers decide what to produce/create
Protected environment
  - No unexpected competition
  - No expected bankruptcy
No push to diminish independence
Emphasis on uniqueness and preservation of identity
Who’s got the power determines the price
If there’s unbalance in a market it’s better to develop market power and to create countervailing power
it’s beneficial to deal with equivalent partners
theaters towards producers, pop halls towards pop promoters, companies towards theaters/concert halls vice versa
Performing arts

- Advantages horizontal integration
  - Professional marketing
  - Product differentiation, additional services
  - Product development by joined investment
  - Cheaper distribution system, direct supply from producer/companies
  - Alignment supply of shows, innovation, quality, marketing
  - More money for artistic value due to diminishing costs
Horizontal integration

- Cooperation for joined topics (marketing, box office, website, purchase performances)
- Quality chains of theaters/concert halls

Vertical integration

- Theaters who produce themselves or theaters/companies with other theaters/companies
- Buying shares of producers to get influence on what they produce
- Creating investment funds of theaters and producers to invest in theater productions
Average costs

Source: Adapted from Posnett (2002).
Measurement of collaboration

- In the commercial world benefits are expressed in market share, shareholder value, return on investment
- Cultural world?
  - Quality?
  - Number of visitors?
  - Consumer satisfaction?
  - Critics?
  - Diversity and artistic deepness programs?
  - Costs?
In-house or Touring Company
The system of producing theaters knows several advantages:

- Theaters have a connection with their own environment and can adjust the performances accordingly.
- The audience forms a relationship with the actors; the audience identifies with the theater and with the actors because they can regularly be seen.
- Theaters form their own artistic identity, resulting in a certain prestige.
- Theaters are attractive employers because light- and sound technicians have more input.
Making performances and concerts mean a greater financial risk than booking and presenting them.

The audience is often presented with the same company and does not have a chance to meet new ways of performing, directing and actors.

When the theater is used for rehearsing there are less days for performances with an audience.
The travel system also has its downsides:

- Traveling is more expensive than performing on a regular stage
- Traveling limits the possibilities for decor and other techniques and
- The marketing demands a different approach
### Vertical integration in Germany and the Netherlands

<table>
<thead>
<tr>
<th>8 cities in 2 countries</th>
<th>Netherlands</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>x euro</td>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td>Inhabitants</td>
<td>2.7 mln</td>
<td>2.7 mln</td>
</tr>
<tr>
<td>Performances</td>
<td>5.591</td>
<td>6.229</td>
</tr>
<tr>
<td>Visitors in house</td>
<td>1.7 mln</td>
<td>2.0 mln</td>
</tr>
<tr>
<td>Visitors total</td>
<td>2.1 mln</td>
<td>2.1 mln</td>
</tr>
<tr>
<td>Own income</td>
<td>58 mln</td>
<td>36 mln</td>
</tr>
<tr>
<td>Subsidy</td>
<td>132 mln</td>
<td>251 mln</td>
</tr>
<tr>
<td>Subsidy/performance</td>
<td>23.689</td>
<td>40.268</td>
</tr>
<tr>
<td>Subsidy/visitor</td>
<td>63</td>
<td>122</td>
</tr>
<tr>
<td>Subsidy/visitor</td>
<td>48</td>
<td>93</td>
</tr>
<tr>
<td>Visitors/seat</td>
<td>158</td>
<td>87</td>
</tr>
<tr>
<td>Visitors/performance per hall</td>
<td>173</td>
<td>117</td>
</tr>
</tbody>
</table>
Conclusions

To improve the operation of companies, theaters and concert halls:
› Find internal and/or external economies of scale
› For external economies of scale find ways of collaboration with preservation of contact with the audience and preservation of local creativity

Be aware of:
› The U-shape of the average costs
› Less independence individual theater/company
› Operation theaters/companies looser from local authorities
› Fear for loss own identity
› Threat of increasing overhead costs
Thanks For Your Attention