



Economics of Collaboration

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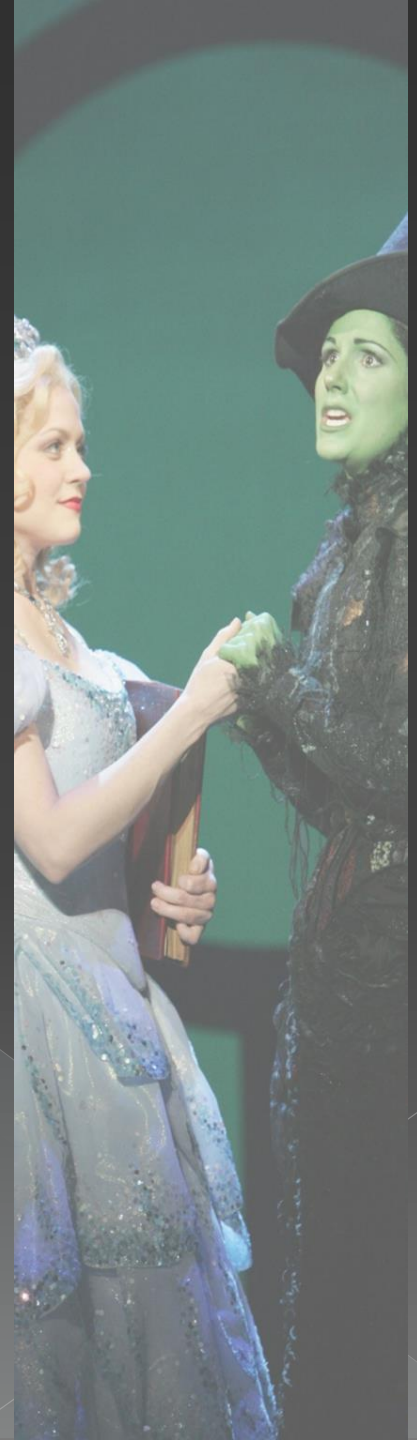
Different kinds

- 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

	24 developed countries with statistics	USA
box office	50%	60%
donations	10%	30%
subsidy	40%	5%
miscellaneous	0%	5%

Internal Economies of Scale

Research 2006

Cross section research among
150 theaters and concert halls

economies of scale		
	visitors	performances
Labor	down	up
Capital	down	down
Housing	down	up
Program	down	up
Subsidy	down	up

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

Number of halls	Subsidy per hall x € 1.000	N	Standard deviation x € 1.000
1	1,528	34	1.178
2	1,514	39	1.089
3	2,071	6	1.74
4	1,449	3	0.44

Long running productions

- 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



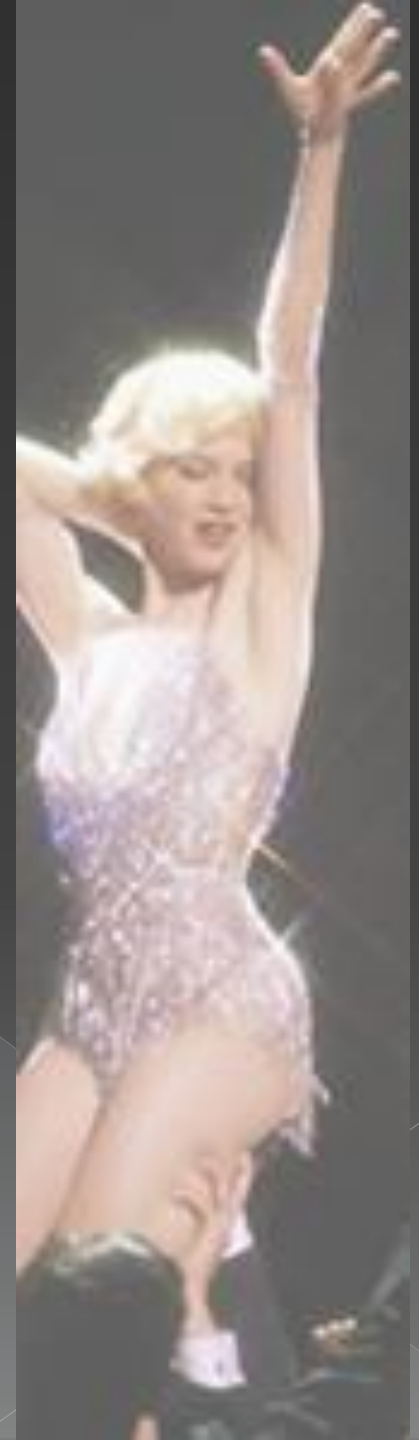
External Economies of Scale

Production chain

Production chain	
Creation/intellectual property	Writers, composers, choreographers
Production	Companies, commercial producers, orchestras, popbands
Distribution/sales	Promoters, agents, media companies
Presentation	Theaters, concert halls, pophalls, festivals,
Reception/consumption	Audience

Vertical integration

- 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

- 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

Development theaters/ concert halls

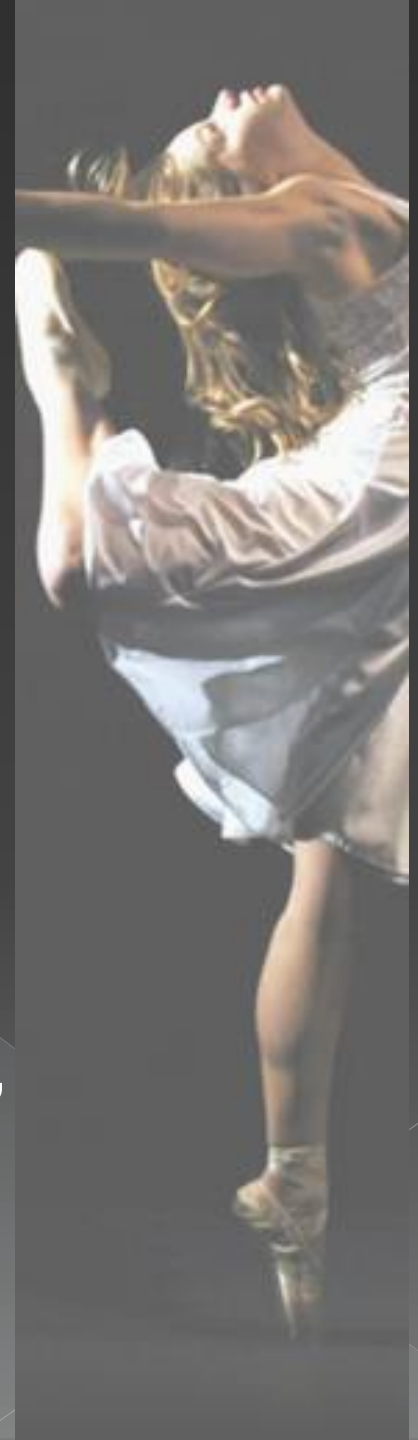
- In The Netherlands collaboration starts slowly
- Mainly non-committal cooperation
- Theaters are depending on commercial producers
- Producers decide what to produce/create
- Protected environment
 - No unexpected competition
 - No expected bankruptcy
- No push to diminish independence
- Emphasis on uniqueness and preservation of identity

Continuation

- 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

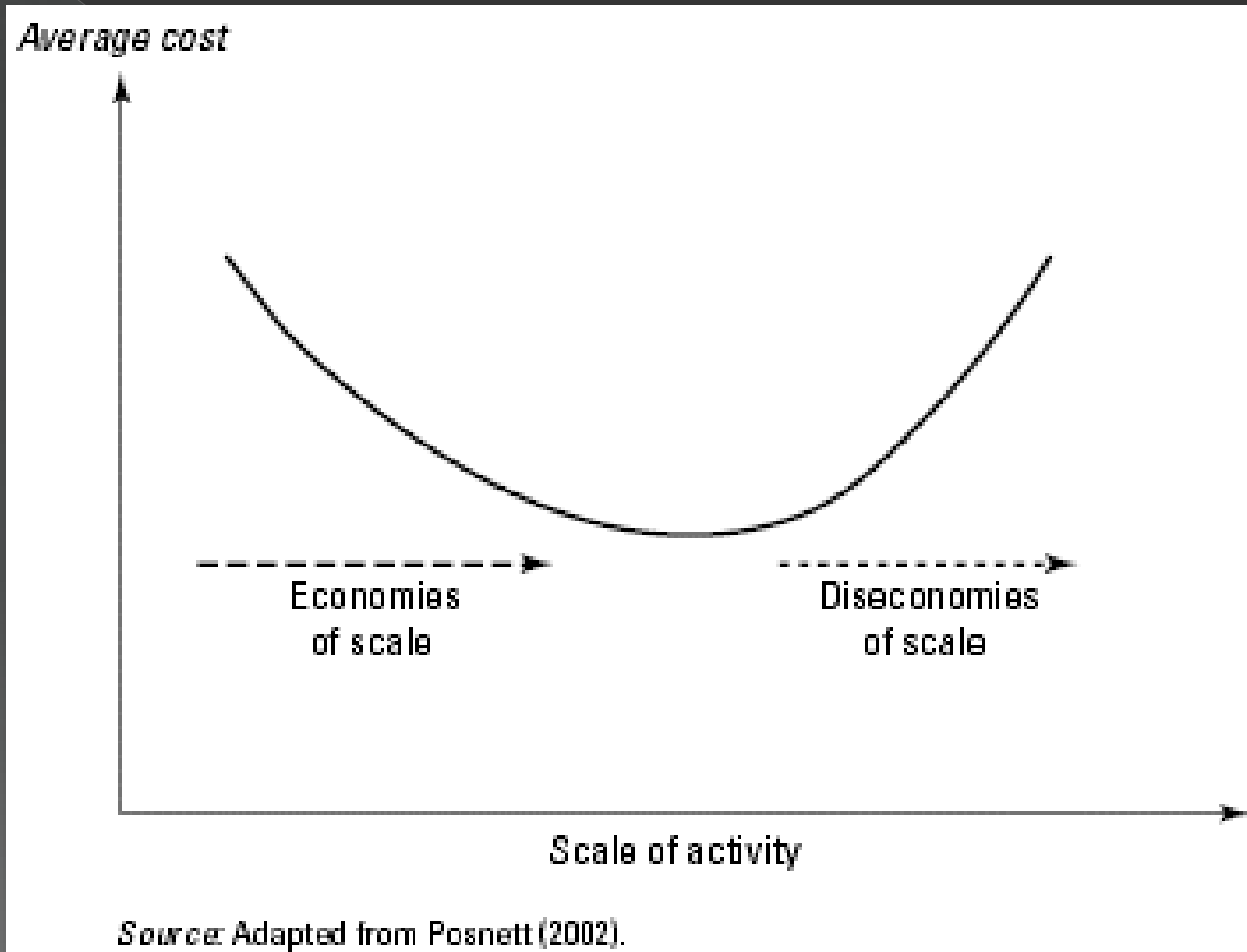
- Advantages horizontal integration
 - > Professional marketing
 - > Product differentiation, additional services
 - > Product development by joined investment
 - > Cheaper distribution system, direct supply from producer/companies
 - > Alignment supply of shows, innovation, quality, marketing
 - > More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



How ?

- 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



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

Producing theaters/ in-house companies

- 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

Downside

- 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

8 cities in 2 countries	Netherlands	Germany
x euro	2008	2007
Inhabitants	2,7 mln	2,7 mln
Performances	5.591	6.229
Visitors in house	1,7 mln	2,0 mln
Visitors total	2,1 mln	2,1 mln
Own income	58 mln	36 mln
Subsidy	132 mln	251 mln
Subsidy/performance	23.689	40.268
Subsidy/visitor	63	122
Subsidy/visitor	48	93
Visitors/seat	158	87
Visitors/performance per hall	173	117

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**