

Planning by the Groningen Arts Centre

Another opportunity

During a meeting on Tuesday, April 6, 1999, executives of the Groningen Arts Centre raised a number of points, including the following.

Karin of Eden (programme coordinator): 'No performances have been planned for 11 and 12 March 2000, a weekend. Since he is one of the best known Dutch comedians, we thought Tom Hek might be willing to give two more performances at our theatre. But he thinks the five performances planned for May 2000 are sufficient proof of his love of Groningen. Well, I have just been told by a theatrical agency that a Latvian company is going to stage the operetta 'Der Bettelstudent' in the Netherlands in March 2000. The agency is asking €2,500,- for two performances – on Saturday and Sunday. I think we should accept this offer. We could price our tickets at €25 each and if each performance draws an audience of 450, we will break even. Just do your sums: $2 \times 450 \times €25 = €2,500,-$ '.

Jan Dekker (controller): 'But we had set aside that weekend in March for a big overhaul of the theatre. The theatre is pretty booked up for that period and the technical staff wants to carry out various small repairs'.

Karin: 'Come on Jan, surely you would not leave the theatre empty for a weekend during the high season?'.

Jan: 'Karin, there is something else to consider. We probably would not sell much more than 450 tickets per performance, although I believe we must make a sizeable sum out of that sort of performance'.

Harm van Tol (director): 'I think Jan has a valid point there. Operettas must bring in a good deal of money to cover deficits caused by less marketable performances. But leaving that aside, we have already planned about 15 operas and operettas for next season. I have nothing against that Latvian company, but we must bear in mind that we are supposed to offer a wide range of good performances'.

Karin: 'I'm sorry, but I don't get it. My proposal will only mean a wider range. It would do no harm. Our fixed costs have already been covered by the municipal subsidy. This operetta is just an extra performance and will not leave us with a deficit. So let's do it'.

Harm: 'We had better think it over for a couple of days. Early next week we will take a decision. Jan, would you check your files to see what audience numbers such unknown companies tend to attract? If there is a good chance of breaking even and selling 100 more tickets per performance, I might agree with Karin'.

Performing arts in the municipality of Groningen

The city of Groningen is an important population centre in the north of the Netherlands. People come from far and wide, even from other provinces, to its university, university hospital, new museum, large sports centre, and venues where big events are held. This list of regional facilities should also include the Groningen Arts Centre. In other words, Groningen ranks as one of the ten top cities in the Netherlands.

The Groningen Arts Centre (GAC) includes four venues;

- the large concert hall, which seats 1,200;
- the small concert hall, which seats 450;
- the city theatre, which seats 700;
- the indoor plaza, which seats 100.

The GAC is the home base of the North Netherlands Orchestra (NNO). The NNO plays in the large concert hall, which is a suitable venue for all kinds of performances, ranging from

concerts to flamenco and from the St Matthew Passion to children's musicals. The theatre offers most of the main theatre, dance and opera productions that are put on in the Netherlands. The plaza and the small concert hall are suited to a wide range of music and theatre performances. All these forms of entertainment are examples of the performing arts.

The GAC is owned by the municipality of Groningen, which is made up of a number of departments, including the Education Culture Sports Welfare Department. This department consists of a number of subdepartments, including the Arts & Culture Subdepartment. Each subdepartment is made up of a number of operating entities. One of the operating entities within the Art & Culture Subdepartment is the GAC.

Planning by the Groningen Arts Centre

Groningen is usually seen by its municipal council as a city where all people interested in the performing arts should be able to find something to suit their taste. For this reason, in 1999 well over 4 million euros was put at the GAC's disposal, i.e. the balance of its estimated revenue (€4.75 million) and estimated costs (€8.85 million), to enable it to offer a wide range of performances. To do so, the GAC had to take all kinds of decisions on performances, venues, dates and times, and contract terms, e.g. ticket prices.

The management of the GAC strives to present a great diversity of performances, i.e. performances that differ in an artistic sense. Some performances are first and foremost for entertainment; they draw a mainstream audience. These performances include Dutch cabaret performances, operettas, and pantomimes at Christmas. Other performances are more ambitious productions, e.g. an experimental performance of Hamlet or atonal music. According to Mr Van Tol, the director of the GAC, these are expressions of 'more rarefied art forms'. Some performances appeal to only a limited number of people. Not all people are willing to sit through a whole play by Lars Norèn or a symphony by Mahler.

The GAC wants to achieve two aims, namely to offer a wide variety of performing arts and – taking account of the GAC's municipal subsidy – to subsidize some art forms by using profits on mainstream performances to cover deficits on more complex and unconventional performances. The term 'profit' refers to the difference between the revenue (box-office receipts) from and the costs incurred for a performance.

However, supply and demand determine primarily what performances will be selected by the GAC. Its director and some of his colleagues gather information on what is on offer and decide on contract terms, i.e. number of performances, venue, ticket price, and purchase price. Major venues at Dutch cities compete fiercely to contract well-known Dutch comedians or singers. These artists could fill each venue night after night, but they are often only available for one evening or a few evenings per venue. This fierce competition even leads to bidding procedures. If a famous American pop star wants to give 10 performances in the Netherlands, an agency may approach twenty large venues and 'award' the artist to the highest bidders. This may even mean that the pop star is going to give ten performances in Amsterdam and that such cities as The Hague, Utrecht, Groningen, and Eindhoven lose out.

Although the four venues of the GAC are not used daily, it is questionable whether they could and should be. The fact of the matter is that 60% is reasonably high capacity usage rate for an attractive venue, partly for the following reasons:

- almost no supply and demand in the summer season;
- relatively little demand on certain weekdays (particularly Mondays);
- time, i.e. one or more days, needed to switch from one type of performance to another, e.g. from a play to an opera;
- time needed for maintenance and repairs.

It takes the GAC a long time to plan the annual season, which runs from September until July. Many of the big performances during the 1999-2000 season, for example, were planned in the autumn of 1998. The dates of concerts by the NNO and dates of the theatre and dance performances during the 1999-2000 season, for example, were fixed before January 1, 1999. In the following months, January up to May 1999, the GAC booked other performances, such as children's shows, chamber music, and Dutch cabaret. The list of performances was completed in June. Every year, in August, the annual programme is published and sent to a large number of people (about 10,000). Until early September they can put their names down for tickets and a few weeks later the GAC will let them know which performances they can attend. Tickets for oversubscribed performances are allocated by drawing lots. If a performance is not sold out at the beginning of the season, the GAC will sell the remaining tickets until the performance in question. During the season the GAC cannot make many changes to its list of performances. However, sometimes a performance has to be cancelled, e.g. because an artist has fallen ill, and sometimes an extra concert has to be put on at short notice, e.g. because a pop star suddenly wants to go on tour or needs money.

Contracts

The GAC draws up contracts for all the performances and concerts to be given at its venues. Every contract sets out the terms and conditions applicable to a particular performance or a number of performances. The GAC uses a variety of contracts rather than standard contracts. The three main types are described below.

The first type is the variable-fee contract. In this case, the artist or company involved and the GAC receive fixed percentages of the box-office receipts, for example the comedian Bram de Jong is going to get 75% for his next performance in the theatre and the GAC 25%. Every performance by Bram de Jong used to be a sell-out, but theatre-goers' interest has begun to wane somewhat. For his most recent performance, the GAC sold only 25% of the 200 tickets for inferior seats in the theatre, i.e. seats behind pillars or in the top balcony.

The second type of contract is the fixed-fee contract. In this case, the GAC pays a fixed amount to the artist or company involved, e.g. the GAC is going to pay €6,500,- for a single solo performance by the actress Bridget Masland in the theatre.

The third type of contract is a combination of the two types mentioned above, namely the fixed-variable-fee contract. The band Double Dutch, for example, is going to give one performance in the large concert hall. Each ticket is going to cost €17.50 and Double Dutch is to receive:

- €12,500,- and
- 50% of surplus box-office receipts, i.e. receipts from tickets sold after a minimum of 800 tickets have been sold.

Double Dutch's performances are usually reasonably well attended. However, during the last season the last 200 tickets had to be sold at the very competitive price of €6.25 after extra promotional activities amounting to €500,-.

The three types of contracts mentioned above can be adapted, if necessary. Sometimes the parties involved need to reach an agreement on the cost of engaging technical staff, e.g. lighting and sound engineers. Will it be borne by the GAC, the artist or the company? Other questions need to be answered too. How much should the impresario be paid, who is going to bear the artist's accommodation expenses, and who is going to pay for drinks during the intermission (on condition that only Johnnie Walker whiskey is served)?

In some cases, particularly those involving fixed-fee contracts, the GAC can set ticket prices at its discretion, although it does have to take account of price-conscious visitors. In the case of the solo performance by the actress Bridget Masland, the GAC could ask €15 for each

of the best seats (the stalls: 60% of the total number of seats) and €10 for each of the worst seats (the balcony: 40% of the total number of seats). The GAC would expect to sell about 450 to 500 tickets. Of course it could raise prices, e.g. from €15 to €17.50, but this decision could lead to less demand for tickets for the solo performance, a kind of performance with a limited appeal.

In other cases, particularly those involving variable-fee contracts, the GAC negotiates a ticket price with the artist or company involved. The comedian Bram de Jong, for example, does not want the price of a stalls or balcony ticket to exceed €17.50, otherwise it will be too high for price-conscious students. The GAC, too, tends to keep prices reasonably low, because it believes that people on low incomes should have access to all kinds of art forms.

To get certain performances, e.g. pop concerts, the GAC has to take part in bidding procedures, as was mentioned before. In these cases, the GAC is faced with even more variables, namely ticket price, fixed fee, variable fee, and the chance of securing a contract.

Assignment 1¹

Please calculate the estimated financial results of the contracts mentioned above concerning the next performances by:

- the comedian Bram de Jong;
- the actress Bridget Masland;
- the band Double Dutch;

and evaluate these contracts while taking the GAC's objectives into consideration.

Randy Newman at Groningen

Late January and early February 2000, Randy Newman gave a number of performances in the Netherlands. This famous American singer-songwriter and pianist – whose songs include 'Short people', 'Sail away' and 'Political science' – also visited Groningen. On February 1, 2000, he performed in the large concert hall of the Groningen Arts Centre, which was sold out.

Randy Newman's Dutch tour had been planned in February 1999, when the GAC was invited to join several others in bidding for a contract. During the past ten years the artist had performed twice in the concert hall, which was sold out on both occasions. Tickets for those performances were priced at €17.50 and €18.75 respectively. In February 1999 director Van Tol emphasized the importance of Randy Newman's visit to Groningen as follows, 'Randy Newman is a fine artist who is still in tune with the times. And his performance will generate publicity over Groningen, newspapers will write about it and it will draw people from far and wide'.

Randy Newman's impresario specified the following terms:

- a. Randy Newman (and his impresario) would receive 50% of the box-office receipts and the GAC would receive the remaining 50%;
- b. the GAC would have to pay a fixed amount to Randy Newman (and his impresario) if it were the highest bidder and its bid was therefore accepted;
- c. the GAC would be allowed to set a ticket price, without prejudice to the provisions under (a).

Assignment 2

¹ In all the assignments you can disregard taxes.

Please specify at least three different bids by the GAC for a single performance by Randy Newman in the large concert hall of the Groningen Arts Centre in January or February 2000. Specify contract terms which are in accordance with the terms a, b, and c mentioned above.

Please do a financial analysis of each contract's advantages and disadvantages to the GAC while taking the GAC's objectives into consideration. Indicate which bid is the best; give arguments that support your opinion.

NB: Any suppositions added to an analysis must be explained explicitly.

Latvian company

Jan Dekker, the GAC's controller, did some analyses of performances in the theatre. He analysed performances by little known opera and operetta companies, particularly companies from what used to be the Eastern bloc, and discovered the following:

- average capacity usage rate: 70%;
- average ticket price: €22.50;
- fair capacity usage rates on Fridays and Saturdays, i.e. 80% on average; poor capacity usage rates on Mondays, i.e. 50% on average; on the other days 70% on average.

Assignment 3

Please calculate the estimated financial result of a performance by the Latvian operetta company mentioned above. Do a financial and policy-specific analysis of the opinions held by the three GAC executives mentioned above, while taking the GAC's objectives into consideration.

What advice would you have given to the director of the GAC?

NB: Any suppositions added to an analysis must be explained explicitly.

Disappointing results

The theatre's results over the first two weeks of March 1999 were rather disappointing. Jan Dekker wondered how that was possible, since March was usually one of the busiest months. He therefore gathered information on those two weeks and listed the data in Table 1.

Table 1 List of performances during the first two weeks of March 1999.

No.	Type	Estimated ticket price (€)	Estimated number of visitors	Actual ticket price (€)	Actual number of visitors	Type of contract	Contractual costs (€)	Extra costs
1	Cabaret	15	470	15*	390	Lump sum	6,000	No
2	Cabaret	18	700	18	675	Price ppv	16 ppv	No
3	Cabaret	16	620	16	400	Mix	5,000 + 6 ppv	No
4	Cabaret	14	510	14	590	Lump sum	6,000	No
5	Theatre	9	580	9	560	Lump sum	4,500	No
6	Theatre	10	540	10	650	Price ppv	8 ppv	No
7	Theatre	13	500	13	350	Price ppv	10 ppv	No
8	Theatre	10	450	10	570	Mix	1,000 + 6 ppv	No
9	Opera	30	480	30**	520	Lump sum	12,000	No

10	Opera	26	450	26	560	Price ppv	23 ppv	No
11	Congress	20#	550	20	430	-	-	Yes
12	Anniversary	30#	600	30	525	-	-	Yes

* 20% of the tickets were sold at a discount of 25%

** half of the tickets sold were sold at a discount of 10%

these prices are exclusive of extra catering costs per visitor

ppv per paying visitor

The following data on each type of performance were available: estimated number of visitors and estimated ticket price, actual number of visitors and actual ticket price paid by the visitors, as well as fees agreed upon with artists and companies. For a few performances, extra costs were incurred, namely catering costs or extra staff costs. These data are listed in Table 2. The congress organizers paid a sum in advance, i.e. a sum equalling the estimated number of visitors multiplied by ticket price plus catering costs per possible visitor. There was no rebate on this sum. The company which celebrated its anniversary paid €20 per paying visitor for catering, in addition to €30 per visitor. The congress organizers and the company were also charged the cost of engaging extra people (i.e. lighting and sound engineers and artists).

Table 2 Extra costs for performances 11 and 12

No.	Type	Estimated extra staff costs	Actual extra staff costs	Catering costs
11	Congress	€8,000	€8,000	€15 per possible visitor
12	Anniversary	€15,000	€15,000	€20 per paying visitor

The fixed costs over the two weeks mentioned above, including depreciations and interest, were €7,200,-. A proportional part of these costs was allocated to each performance, i.e. €600 (= €7,200 / 12 performances). These fixed costs per performance include standard staff costs, which are the same for each performance because the city theatre requires the same number of people for each performance, e.g. attendants. Moreover, the total number of employees is planned well in advance. Extra staff costs are mentioned in Table 2. The city theatre contracts out its catering to a catering company which bears its own costs and gets the full amount of sales revenues. The city theatre is not involved in catering. If a performance entails extra catering, the theatre will charge the client the catering costs and will pay the full amount to the catering company.

Assignment 4

Prepare a variance analysis on the basis of the data mentioned above. You should not only focus on individual performances, but also consider how the performances could be categorized on the basis of certain characteristics. Indicate which categorizations could yield useful information, then conduct variance analyses and draw conclusions from the analyses.